APPRAISAL OF REAL PROPERTY

2911 Tennyson, Bldg D
Office Property
2911 Tennyson Ave.
Eugene, Lane County, Oregon 97405

PREPARED FOR:
Daniel P. Pepple
Pepple Johnson Cantu & Schmidt, PPLC
1501 Western Avenue, Suite 600
Seattle, WA 98101

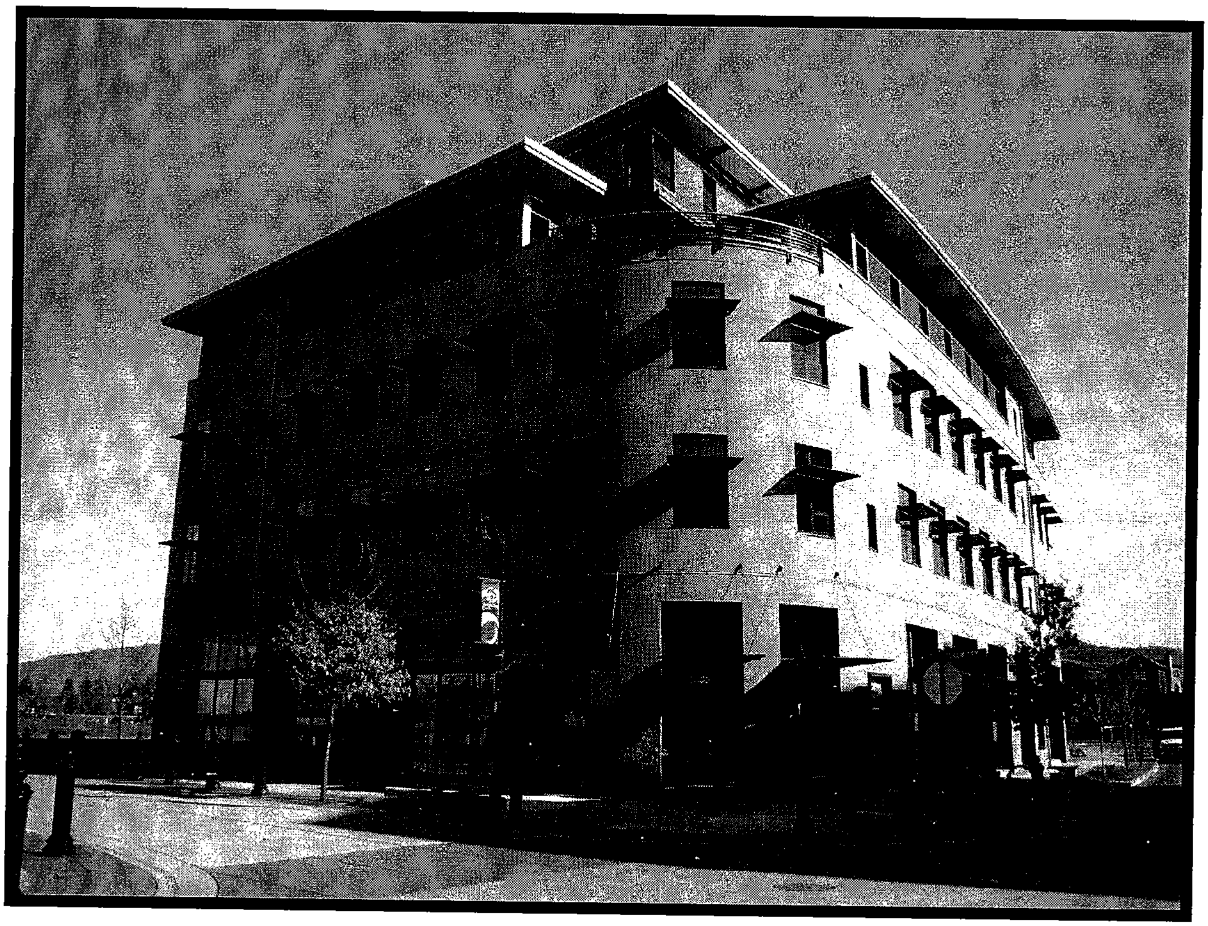
EFFECTIVE DATE OF THE APPRAISAL:
February 1, 2012

REPORT FORMAT:
Self-Contained

INTEGRA REALTY RESOURCES - PORTLAND
File Number: 134-2010-0038

INTEGRA Realty Resources

LOCAL EXPERTISE...NATIONALLY



2911 Tennyson, Bldg D
2911 Tennyson Ave.
Eugene, Oregon

INTEGRA Realty Resources
PORTLAND
Local Expertise...Nationally

March 2, 2010

Daniel P. Pepple
Pepple Johnson Cantu & Schmidt, PPLC
1501 Western Avenue, Suite 600
Seattle, WA 98101

SUBJECT: Market Value Appraisal
2911 Tennyson, Bldg D
2911 Tennyson Ave.
Eugene, Lane County, Oregon 97405
Integra Portland File No. 134-2010-0038

Dear Mr. Pepple:

Integra Realty Resources – Portland is pleased to submit the accompanying appraisal of the referenced property. The purpose of the appraisal is to develop an opinion of the prospective market value at stabilization of the leased fee interest in the property. As requested, we also estimate the market value as is. The client for the assignment is Pepple Johnson Cantu & Schmidt, PPLC, and the intended use is for asset valuation purposes.

The appraisal is intended to conform with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and the appraisal guidelines of Bank of America and Pepple Johnson Cantu & Schmidt, PPLC. The appraisal is also prepared in accordance with the appraisal regulations issued in connection with the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).

To report the assignment results, we use the self-contained report option of Standards Rule 2-2 of USPAP. Accordingly, this report contains all information significant to the solution of the appraisal problem.

The subject is an existing office property containing 32,437 square feet of rentable area. The improvements were constructed in 2009, and are 49% leased as of the effective appraisal date. The site area is 0.62 acres, or 27,007 square feet.

Based on the valuation analysis in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed in the report, our opinion of value is as follows:

VALUE CONCLUSIONS

Appraisal Premise	Interest Appraised	Date of Value	Value Conclusion
Prospective Market Value at	Leased Fee	February 1, 2012	$7,140,000
Market Value As Is	Leased Fee	February 19, 2010	$5,700,000

EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS

The value conclusions are subject to the following extraordinary assumptions and hypothetical conditions that may affect the assignment results.

1. For purposes of the as is valuation, we assume:
   a.Though there is a lease in place for the Arlie & Company space, they are not currently paying rent and are looking for another tenant to take over the space. This appraisal includes this area in the lease up analysis, as if vacant.

The opinions of value expressed in this report are based on estimates and forecasts that are prospective in nature and subject to considerable risk and uncertainty. Events may occur that could cause the performance of the property to differ materially from our estimates, such as changes in the economy, interest rates, capitalization rates, financial strength of tenants, and behavior of investors, lenders, and consumers. Additionally, our opinions and forecasts are based partly on data obtained from interviews and third party sources, which are not always completely reliable. Although we are of the opinion that our findings are reasonable based on available evidence, we are not responsible for the effects of future occurrences that cannot be reasonably foreseen at this time.

It is noted that current financial and real estate markets are in a state of instability and there are limited transactions that provide reliable evidence of current market value. There is not a consensus of market participants concerning the duration and ultimate severity of the current economic downturn. We have analyzed available data and have applied adjustments that we consider reasonable in light of current uncertainties; however, we caution the users of this appraisal that the value conclusion reported herein may have a lesser degree of reliability than it would in a more normal market.

If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

INTEGRA REALTY RESOURCES - PORTLAND

Robert L. Hickok, MAI, MRICS
Certified General Real Estate Appraiser
OR Certificate # C000053
Telephone: 503-478-1004
Email: rhickok@irr.com

Kathryn S. Skiff
Certified General Real Estate Appraiser
OR Certificate # C101922
Telephone: 503-478-1012
Email: kskiff@irr.com

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SUMMARY OF SALIENT FACTS AND CONCLUSIONS

PART ONE		
Property Name	2911 Tennyson, Bldg D	
Address	2911 Tennyson Ave. Eugene, Oregon 97405	
Property Type	Office - Mixed Use: Office-Retail	
Owner of Record	2911 Tennyson Avenue, LLC	
Tax ID	1743176	
Land Area	0.62 acres; 27,007 SF	
Gross Building Area	35,285 SF	
Rentable Area	32,437 SF	
Percent Leased	20%	
Year Built	2009	
Year Renovated	N/A	
Zoning Designation	R-4/PD, High-Density Residential with PUD Overlay	
Highest and Best Use		
As if Vacant	Mixed use property	
As Improved	Continued office/retail use	
Exposure Time; Marketing Period	6-12 months; 6-12 months	
Effective Date of the Appraisal	February 1, 2012	
Date of the Report	March 2, 2010	
Property Interest Appraised	Leased Fee	
Market Value Indications		
Cost Approach	Not Used	
Sales Comparison Approach	$7,140,000	($220.12/SF)
Income Capitalization Approach	$7,140,000	($220.12/SF)
Market Value Conclusion	$7,140,000	($220.12/SF)

VALUE CONCLUSIONS

Appraisal Premise	Interest Appraised	Value Conclusion
Prospective Market Value at Stabilization	Leased Fee	$7,140,000
Market Value As Is	Leased Fee	$5,700,000

EXTRAORDINARY ASSUMPTIONS & HYPOTHETICAL CONDITIONS

The value conclusions are subject to the following extraordinary assumptions and hypothetical conditions that may affect the assignment results.

1. For purposes of the as is valuation, we assume:
   a.Though there is a lease in place for the Arlie & Company space, they are not currently paying rent and are looking for another tenant to take over the space. This appraisal includes this area in the lease up analysis, as if vacant.

PART TWO		
Number of Tenants	2	
Average Contract Rent/SF	$18.90	
Average Market Rent/SF	$21.26	
Sales Comparison Approach		
Number of Sales	5	
Range of Sale Dates	Jul-08 to Jun-09	
Range of Unit Prices	$218.75 to $275.25	
Indicated Value (Stabilized)	$7,140,000	($220.12/SF)
Income Capitalization Approach		
Potential Gross Income at Stabilization	$866,681	($26.72/SF)
Stabilized % Vacancy & Collection Loss	10.0%	
Effective Gross Income	$780,012	($24.05/SF)
Operating Expenses	$173,487	($5.35/SF)
Operating Expense Ratio	22.2%	
Net Operating Income at Stabilization	$606,526	($18.70/SF)
Capitalization Rate Applied and Value	8.50%	$7,140,000
Indicated Value (Stabilized)	$7,140,000	($220.12/SF)
Market Value Conclusion (Stabilized)	$7,140,000	($220.12/SF)

GENERAL INFORMATION

IDENTIFICATION OF SUBJECT

The subject is an existing office property containing 32,437 square feet of rentable area. The improvements were constructed in 2009, and are 49% leased as of the effective appraisal date. The site area is 0.62 acres, or 27,007 square feet. A legal description of the property was not provided.

PROPERTY IDENTIFICATION	
Property Name	2911 Tennyson, Bldg D
	Eugene, Oregon 97405
Tax ID	1743176

CURRENT OWNERSHIP AND SALES HISTORY

The owner of record is 2911 Tennyson Avenue, LLC. This party acquired the property over three years ago as part of a larger acquisition. The subject building was completed in February 2009 and is part of the larger Crescent Village mixed-use development, which includes two larger buildings with first floor retail and apartments above as well as the subject building. There are several more buildings proposed in the development, including office, big box retail, and more apartment units, though none are currently under construction. Please see the map in the Surrounding Area Analysis section for an illustration of the Crescent Village development. The total cost for the subject building was $5,311,332, which does not include tenant improvements for the currently vacant spaces. The subject property is LEED Gold certified, which placed upward pressure on the costs. There is currently vacant space for both office and retail components, with asking rents of $20-22/SF for office and $27-30/SF for retail, both with triple net expense structures. There are currently three tenants; Inkwell Medical Group on the second floor, Northwest Farm Credit Services on the third floor, and Arlie & Company which occupies the entire fourth floor as well as the fifth floor mezzanine. Arlie & Company recently declared bankruptcy and stopped paying rent on the space in September. They are trying to find a replacement tenant to take the space. Therefore, the space is considered vacant and is included in the lease up projection for the subject.

To the best of our knowledge, no sale or transfer of ownership has occurred within the past three years, and as of the effective date of this appraisal, the property is not subject to an agreement of sale or option to buy, nor is it listed for sale.

TYPE OF VALUE, PROPERTY RIGHTS AND EFFECTIVE DATE

The purpose of the appraisal is to develop an opinion of the prospective market value at stabilization of the leased fee interest in the property as of the effective date of the appraisal, February 1, 2012. As requested, we also estimate the market value as is of the leased fee interest, as of February 19, 2010. The date of the report is March 2, 2010.

DEFINITION OF MARKET VALUE

Market value is defined as:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale." (Source: 12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990, as amended at 57 Federal Register 12202, April 9, 1992; 59 Federal Register 29499, June 7, 1994)

DEFINITION OF PROPERTY RIGHTS APPRAISED

Leased fee interest is defined as: "An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease." (Source: The Dictionary of Real Estate Appraisal, Fourth Edition, 2002.)

CLIENT, INTENDED USER AND INTENDED USE

The client is Bank of America, NA. The intended use is use as an aid in acquisition, financing, loan classification, and/or asset disposition. The intended users of the report may include: Bank of America and its affiliates or subsidiaries, other participating financial institutions, governmental/non-governmental agencies, legal counsel or other transaction participants. The appraisal is not intended for any other use or user.

APPLICABLE REQUIREMENTS

This appraisal is intended to conform to the requirements of the following:

- Uniform Standards of Professional Appraisal Practice (USPAP);
- Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
- Appraisal requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), revised June 7, 1994;

- Appraisal guidelines of Bank of America and Pepple Johnson Cantu & Schmidt, PPLC.

SCOPE OF WORK

To determine the appropriate scope of work for the assignment, we considered the intended use of the appraisal, the needs of the user, the complexity of the property, and other pertinent factors. Our concluded scope of work is described below.

VALUATION METHODOLOGY

Appraisers usually consider the use of three approaches to value when developing a market value opinion for real property. These are the cost approach, sales comparison approach, and income capitalization approach. Use of the approaches in this assignment is summarized as follows:

APPROACHES TO VALUE

Approach	Applicability to Subject	Use in Assignment
Cost Approach	Not applicable	Not Utilized
Sales Comparison Approach	Applicable	Utilized
Income Capitalization Approach	Applicable	Utilized

The **income capitalization approach** is the most reliable valuation method for the subject due to the following:

- The probable buyer of the subject would base a purchase price decision primarily on the income generating potential of the property and an anticipated rate of return.
- Sufficient market data regarding income, expenses, and rates of return, is available for analysis.

The **sales comparison approach** is an applicable valuation method because:

- There is an active market for similar properties, and sufficient sales data is available for analysis.
- This approach directly considers the prices of alternative properties having similar utility.

The **cost approach** is not applicable to the assignment considering the following:

- There are limited land transactions in the market area of the subject, making estimates of underlying land value subjective.
- This approach is not typically used by market participants.
- The subject is a LEED Platinum building and costs for similar buildings in the subject's market were unavailable. This would limit the applicability of this approach.

- The market downturn has created a drop in property values. Constructions costs have not declined as steeply, resulting in a significant difference between property values and replacement costs. Therefore, buyers do not consider this approach when valuing a property.

DATA RESEARCH AND ANALYSIS

The process employed to collect, verify, and analyze relevant data is detailed in individual sections of the report. This includes the steps we took to verify comparable sales, which are disclosed in the comparable sale profile sheets in the addenda to the report. Although we make a concerted effort to confirm the arms-length nature of each sale with a party to the transaction, it is sometimes necessary to rely on secondary

PROPERTY INSPECTION

Robert L. Hickok, MAI, MRICS conducted an interior and exterior inspection of the property on October 12, 2009. Kathryn S. Skiff conducted an interior and exterior inspection on October 12, 2009.

REPORT FORMAT

This report is prepared under the self-contained report option of Standards Rule 2-2 of USPAP. Accordingly, the report contains all information significant to the solution of the appraisal problem.

ECONOMIC ANALYSIS

EUGENE-SPRINGFIELD MSA AREA ANALYSIS

The Eugene-Springfield MSA is the largest population center in Lane County, and represents 60.5% of Lane County's population.

Lane County covers over 4,600 square miles in the central-western portion of Oregon. Other significant communities in the area include Junction City and Coburg to the north and Cottage Grove to the south. Eugene and Springfield are located approximately 110 miles south of Portland and about 65 miles east of the Pacific Ocean.

The cities of Eugene and Springfield are at the southern end of the Willamette Valley. The McKenzie and Willamette Rivers extend through the Willamette Valley and the Eugene-Springfield metropolitan area. Oregon's three largest metropolitan areas are located along the valley, with Portland at the north end, Salem at the mid-point and Eugene-Springfield at the southern end.

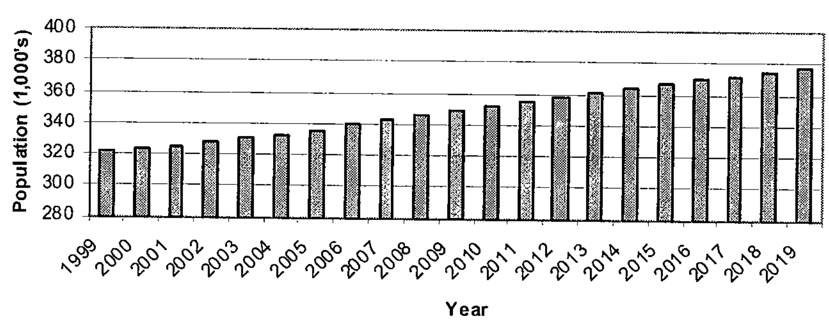
An analysis of population, employment, and income trends for the Eugene-Springfield MSA and the State of Oregon is performed using data provided by NPA Data Services, a recognized source; the Portland State University Population Research Center, and the Oregon Employment Department.

POPULATION

The largest city in Lane County is Eugene, which is also the third largest city in Oregon. The most recent population estimate for Eugene is 161,520 as of July 2009.[2] Springfield is the ninth largest city in Oregon and had a census population of 58,941 in 2009. The estimate for all of Lane County was 353,400. Historical and projected population trends for the Eugene-Springfield MSA are charted below:

POPULATION TRENDS

Eugene-Springfield



[2] Portland State University Population Research Center

The population of the Eugene-Springfield MSA as well as Lane County increased at a compounded annual rate of 1.00% from 2006 to 2009, below Oregon's rate of 1.28%.

POPULATION TRENDS COMPARISON

		State of Oregon		Eugene-Springfield MSA	
	Year	Population (000's)	% Change	Population (000's)	% Change
	2006	3,700	1.60%	340	1.25%
Historical	2007	3,800	1.40%	344	1.03%
	2008	3,800	1.20%	344	0.00%
	2009	3,800	0.90%	350	1.72%
Current	**2010**	**3,900**	**1.00%**	**353**	**0.86%**
	2011	3,900	1.20%	355	0.82%
	2012	4,000	1.30%	358	0.82%
Projected	2013	4,000	1.30%	361	0.78%
	2014	4,100	1.20%	364	0.78%
Average Annual Compound	**Historical**				
	Past 5 years		1.28%		1.00%
	Projected				
	Next 5 years		1.25%		0.80%

Source: Bureau of Economic Analysis, Oregon Office of Economic Analysis, and Oregon Employment Department

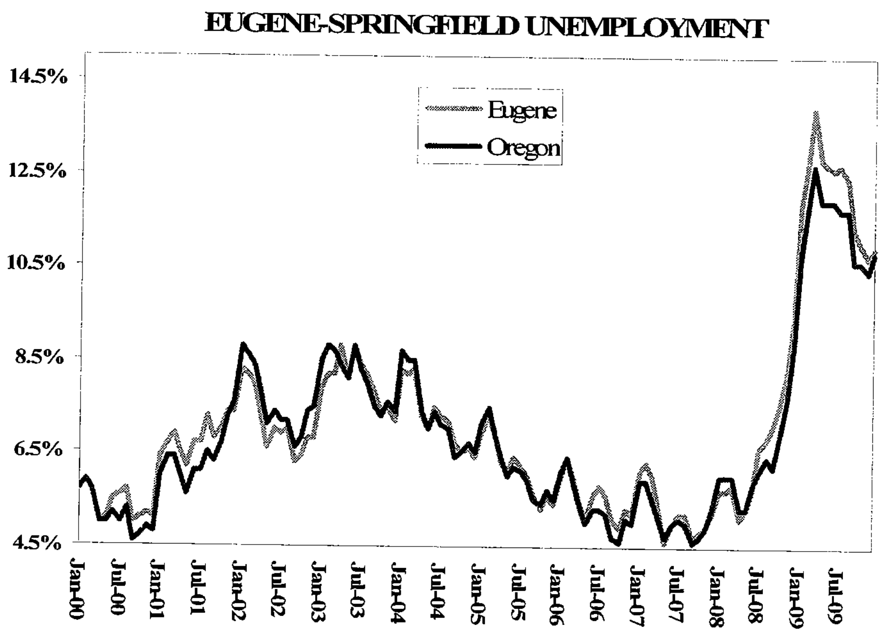
ECONOMY AND EMPLOYMENT

After a period of economic slowdown and stagnation, brought about by the nationwide recession beginning in March 2001, the Eugene-Springfield MSA began to show a trend of improvement by mid-2004. While the State and region enjoyed another growth period from 2004 to 2008, this period if growth ended as the national economy officially entered a recession, primarily as a result of the sub- prime mortgage crisis and the resulting fallout. This was evidenced throughout 2008 by a continuing correction in the housing market, job losses, and a declining dollar. The collapse of investment bank Bear Stearns in March, followed by the failure of IndyMac, and insolvency of Fannie Mae, and Freddie Mac, showed that the damage from sub prime lending was far-reaching. This was affirmed by the events of September 2008, when several large financial institutions, including Lehman Brothers, Merrill Lynch, AIG Insurance, and Washington Mutual, either file for bankruptcy protection, were acquired at heavily discounted prices, or required significant monetary assistance.

These events shook investor confidence, and the stock market began a deep decline in mid-September. This led to a government ban on short-selling, and the proposal for a Treasury bailout of around $787 billion to assist ailing financial institutions. Even with congressional approval of the bailout, stock market volatility continues and there is a general lack of liquidity in credit markets, which will negatively impact business and real estate in the coming months. Investor confidence remains low because of fears of other bank failures and more credit defaults. The federal government has proposed several rescue options that include pumping more capital into weakened banks and

buying bad assets. The specific known effects on Oregon and the Portland-Vancouver MSA thus far are increased unemployment and a slow housing market.

Unemployment has increased rapidly during the recent recession. As of December 2009, unemployment (not seasonally adjusted) in the Eugene-Springfield MSA was 10.9%, almost equal to the Oregon average of 10.8% and down from the high of 13.9% in March 2009. The chart below illustrates unemployment trends in the Eugene-Springfield MSA compared to the state of Oregon.



Lane County is down 10,386 jobs in this recession[1]. Among the hardest hit industries was RV manufacturing, which in 2005 employed 4,500, and was reduced down to 1,000 jobs as of January 2009. Monaco Coach Corporation, an RV manufacturer in Coburg that used to employ 2,400, filed for bankruptcy in March 2009 and terminated its remaining employees; however, the company was bought out of bankruptcy by Navistar International Corporation in June. The new company (Monaco RV LLC), has since re-hired 800 of its former employees, remains headquartered in Lane County. Country Coach, an RV manufacturer in Junction City (1,600 employees in 2007), ceased production in mid-November, but has also reorganized under Chapter 11 bankruptcy, and has resumed production with around 130 employees.

Among other job losses are 128 positions at the Weyerhaeuser Company, who announced in December 2008 the permanent closure of two manufacturing plants in Springfield and Coburg.

[1] http://www.registerguard.com/csp/cms/sites/web/news/cityregion/19285653-41/story.csp

In July 2008, Hynix Semiconductor America announced its plans to close their manufacturing plant in Eugene, thus eliminating over 1,100 jobs. In late September, The Oregonian published an article according to which a South Korean company Uni-Chem is in negotiations to buy the Hynix semiconductor plant in Eugene and modify it to manufacture solar cells and modules, eventually hiring about 1,000 people.

On the other hand, Peace Health, a nonprofit medical provider that employs around 6,200 in Lane County, expects to be on par with State economists' projections of 1.6% growth in employment this year.

Even though there are some signs of cautious optimism among local business owners, there is still concern about costs, and it may not be until 2011 before employers begin contemplating hiring new employees.

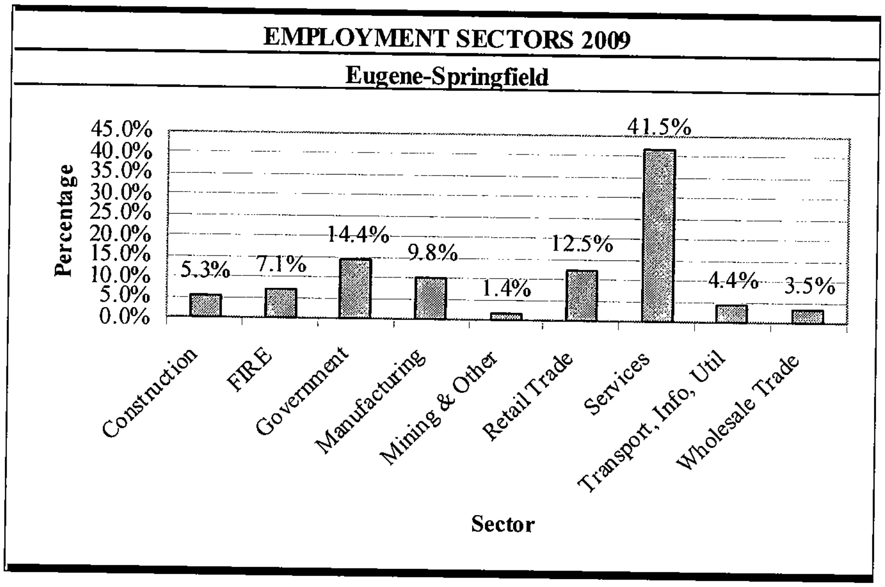
Employment trends for the Eugene-Springfield MSA and the State of Oregon are presented below.

NON-FARM EMPLOYMENT TRENDS COMPARISON

		State of Oregon		Eugene-Springfield MSA	
	Year	Employment (000's)	% Change	Employment (000's)	% Change
	2006	1703.5	3.0%	201.6	2.86%
Historical	2007	1731.4	1.6%	204.3	1.34%
	2008	1721.2	-0.6%	205.0	0.34%
	2009	1659.0	-3.6%	206.0	0.49%
Current	**2010**	**1631.3**	**-1.7%**	**208.4**	**1.17%**
	2011	1652.3	1.3%	211.9	1.70%
	2012	1700.2	2.9%	215.1	2.30%
Projected	2013	1744.5	2.6%	217.2	2.20%
	2014	1777.7	1.9%	219.5	2.30%
Average Annual Compound Change		**Historical**			
		Past 5 years	-0.25%		1.24%
		Projected			
		Next 5 years	1.41%		1.84%

Source: Bureau of Economic Analysis, Oregon Office of Economic Analysis, and Oregon Employment Department

The following table summarizes the current distribution of employment by industry.



INCOME

Personal income is a significant factor in determining real estate demand in a given market. From 2005 to 2010, the Eugene-Springfield MSA's income grew at an average annual compound rate of 1.07%, the same rate as Lane County, but much lower than Oregon's average annual compound growth rate of 3.15%. Projections for the next five year periods reflect growth rates for the Eugene-Springfield MSA and Lane County that are parallel to the anticipated gains for Oregon. The chart below outlines trends in per capita income.

PER CAPITA INCOME COMPARISON

		State of Oregon		Eugene-Springfield MSA	
	Year	Per Capita Income (000's)	% Change	Per Capita Income (000's)	% Change
	2005	31.4	2.80%	26.2	1.6%
	2006	33.5	6.60%	26.9	2.6%
Historical	2007	35.0	4.49%	27.5	2.4%
	2008	35.9	2.61%	27.5	-0.2%
	2009	35.6	-0.73%	27.2	-1.1%
Current	**2010**	**36.0**	**1.02%**	**28.0**	**3.1%**
	2011	37.2	3.35%	28.8	2.9%
	2012	38.7	4.13%	29.5	2.4%
Projected	2013	40.4	4.15%	30.0	1.7%
	2014	41.9	3.86%	32.4	7.8%
Average Annual Compound		**Historical**			
		Past 5 years	3.15%		1.07%
		Projected			
		Next 5 years	3.30%		3.58%

Source: Bureau of Economic Analysis, Oregon Office of Economic Analysis, and Oregon Employment Department

TRANSPORTATION

The Interstate 5 freeway serves the Willamette Valley and is the most western interstate freeway system in the United States extending north and south through Washington, Oregon and California, south to Mexico and north to Canada.

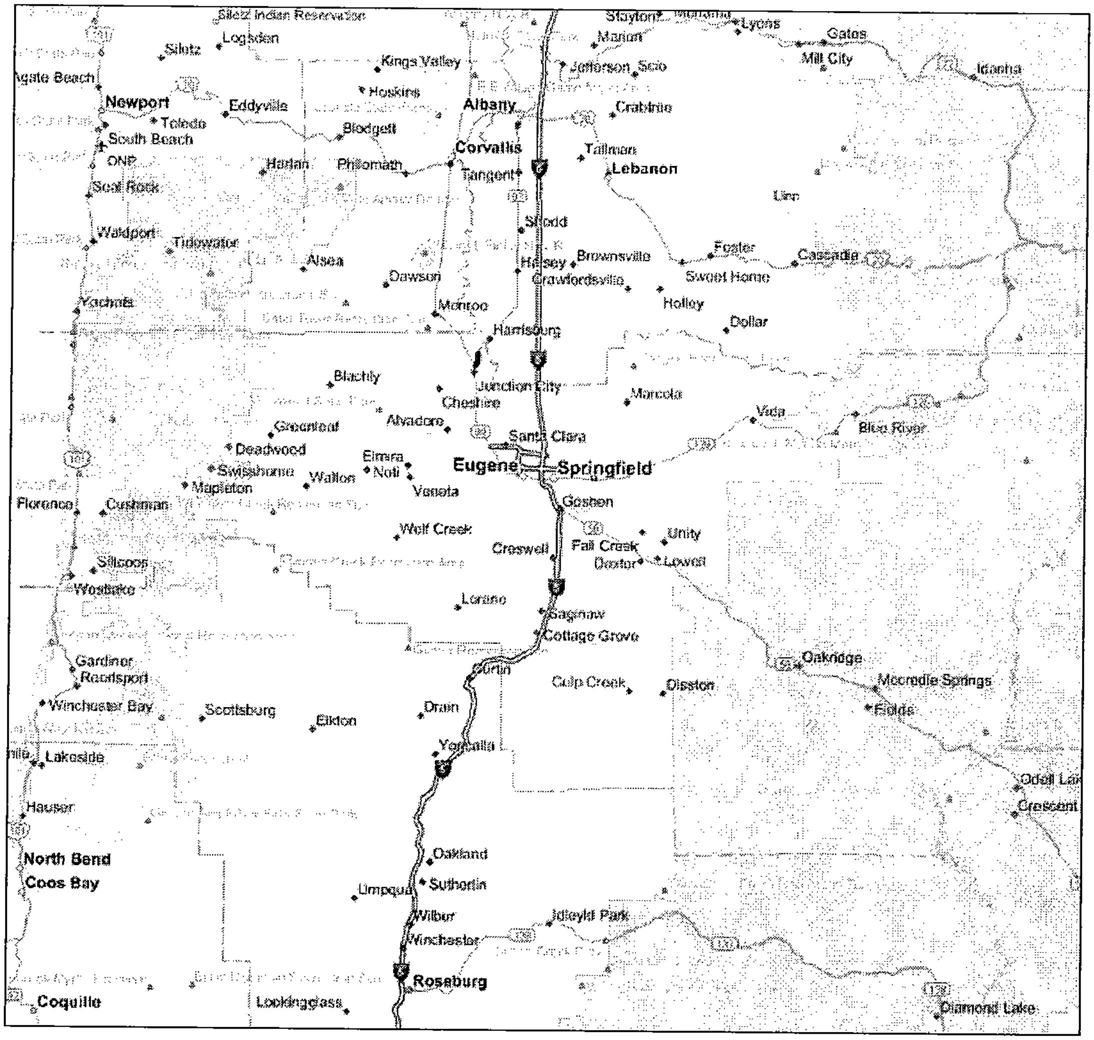
Interstate 105 is an east-west inter-urban freeway that connects Eugene and Springfield, and is the primary connector to Interstate 5. East of I-5 this freeway is known as Highway 126 and joins the McKenzie Highway in the east portion of the city at 56th Street. Other forms of transportation for the metropolitan area include the Eugene Airport, with flights to other western cities, and AMTRAK which provides passenger train service for the metropolitan area. Northern Pacific and Burlington Northern Railroads serve the area. Greyhound Bus Lines provides bus service, and Lane Transit District provides local passenger bus service with routes to Cottage Grove, Junction City, McKenzie Bridge and other small communities in central Lane County.

SUMMARY AND TRENDS

In summary, the Eugene/Springfield metropolitan area is considered a desirable area in which to reside, work, and visit due to its moderate climate, good transportation system, educational facilities, and recreational opportunities.

In spite of recent downward trend in income and employment, overall, the economic outlook for the Eugene-Springfield MSA for the long term is positive. The expected growth, especially in the context of Oregon's land use system, should provide an economic base that supports heightened demand for real estate in the subject neighborhood and for the subject property. These conditions should also stimulate increases in general property values within the foreseeable future.

AREA MAP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Stayton
Lyons
Gates
Mill City
Idanha
Siletz
Logsden
Kings Valley
Marion
Jefferson
Scio
Newport
Eddyville
Hoskins
Albany
Crabtree
Toledo
South Beach
Blodgett
Corvallis
Tallman
Lebanon
Harlan
Philomath
Tangent
Seal Rock
Linn
Shedd
Waldport
Tidewater
Alsea
Halsey
Brownsville
Foster
Cascadia
Dawson
Crawfordsville
Sweet Home
Yachats
Holley
Monroe
Dollar
Harrisburg
Blachly
Junction City
Cheshire
Marcola
Vida
Alvadore
Greenleaf
Santa Clara
Blue River
Deadwood
Elmira
Swisshome
Noti
Eugene
Springfield
Mapleton
Walton
Veneta
Florence
Cushman
Goshen
Wolf Creek
Unity
Creswell
Fall Creek
Siltcoos
Dexter
Lowell
Westlake
Lorane
Saginaw
Cottage Grove
Gardiner
Reedsport
Oakridge
Culp Creek
Disston
Winchester Bay
Scottsburg
Drain
Elkton
Fields
Lakeside
Yoncalla
Hauser
North Bend
Coos Bay
Oakland
Sutherlin
Umpqua
Wilbur
Idleyld Park
Winchester
Roseburg
Coquille
Lookingglass
Diamond Lake
Crescent

SURROUNDING AREA ANALYSIS

BOUNDARIES

The subject is located in the northern portion of Eugene, Oregon. This area is generally delineated as follows:

North	Willamette River
South	Beltline Road (Highway 596)
East	Interstate-5
West	Delta Road

A map identifying the location of the property follows this section.

ACCESS AND LINKAGES

Primary access to the area is provided by Beltline Road, a major arterial that crosses the Eugene area in an east/west direction. Beltline Road provides access to Intertstate-5, and travel time from the major arterial to the subject is about 10 minutes. Overall, vehicular access is average.

Public transportation is provided by the Lane Transit District and provides access to all of Eugene and Springfield. The local market perceives public transportation as good compared to other areas in the region. However, the primary mode of transportation in this area is the automobile

The Eugene Airport in located approximately 10 miles east of the subject property and serves commercial airlines with limited destinations. The Portland Airport, the major commercial airport in Oregon, is located about 125 miles north of the property; travel time is about two hours, depending on traffic conditions. The Eugene CBD, the economic and cultural center of the region, is approximately 5 miles from the property.

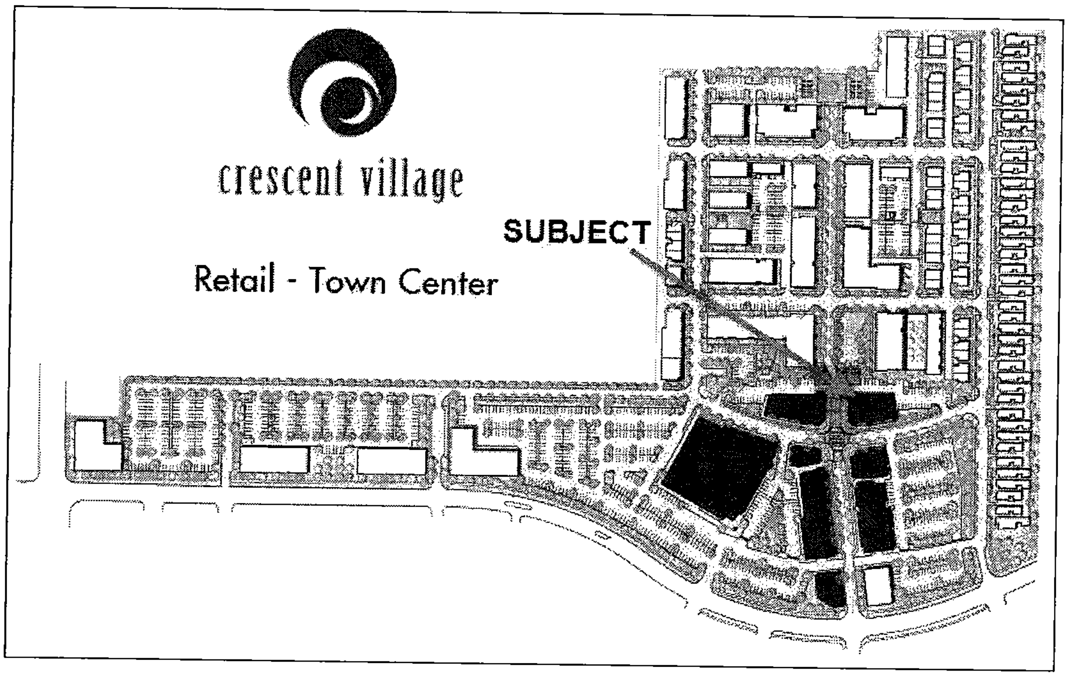
DEMOGRAPHIC FACTORS

Compared to the Eugene-Springfield metro area as a whole, the local area has similar income levels. Population trends are similar except that the local area is growing at a slightly faster rate due to the amount of available land. Overall, the area is considered a growing market.

LAND USE

The area is suburban in character but is transitioning from low to high density uses. Land uses immediately surrounding the subject are predominantly high density residential, though there are also significant amounts of commercially zoned land located along Coburg Road and Crescent Avenue. The area south of the subject near the Beltline Road/I-5 interchange includes a significant amount of retail development, including Costco, Office Depot, PetSmart, Shopko, and Oregon Community Credit Union.

The newest development is Crescent Village, of which the subject is a part. When complete, this development will include 630 residential apartments, 240,000 square feet of office, and 180,800 square feet of retail space. Currently, there are only three buildings complete offering a mix of retail, office, and residential uses. The apartment units are already stabilized while the retail and office space has had difficulty absorbing with the current market downturn. Proposed uses include more apartments (some of which will be live/work units), office, and possibly a big box retail building. Below is a map of the project:



Another major proposed development is the Coburg Station mixed-use development proposed at the corner of Coburg Road and Game Farm Road. This five-building development plans to include pad buildings as well as larger multi-tenant office and retail buildings. While the original intent was to sell office and retail suits as condominium units, this has proved difficult in the current market. The spaces are now being marketed for lease as well as for sale to facilitate a quicker completion of the buildings.

SURROUNDING AREA LAND USES	
Character of Area	Suburban
Predominant Age of Improvements	10 years and newer
Predominant Quality and Condition	Above Average
Approximate Percent Developed	50%
Infrastructure/Planning	Average
Predominant Location of Undeveloped Land	North and west of the subject
Prevailing Direction of Growth	North

SUBJECT'S IMMEDIATE SURROUNDINGS	
North	Vacant multi-family land
South	Mixed use buildings, also part of the Crescent Village development
East	Vacant land proposed for office use
West	Attached and detaches single family residences

OUTLOOK AND CONCLUSIONS

The area is in the growth stage of its life cycle. There has been significant development in the past few years and as the market stabilizes this trend is expected to continue. We anticipate that property values will increase as the national and local economies turn around.

In comparison to other areas in the region, the area is rated as follows:

SURROUNDING AREA ATTRIBUTE RATINGS	
Highway Access	Above Average
Demand Generators	Average
Convenience to Support Services	Average
Convenience to Public Transportation	Average
Employment Stability	Average
Police and Fire Protection	Average
Property Compatibility	Above Average
General Appearance of Properties	Above Average
Appeal to Market	Average
Price/Value Trend	Average

SURROUNDING AREA MAP

OFFICE MARKET ANALYSIS

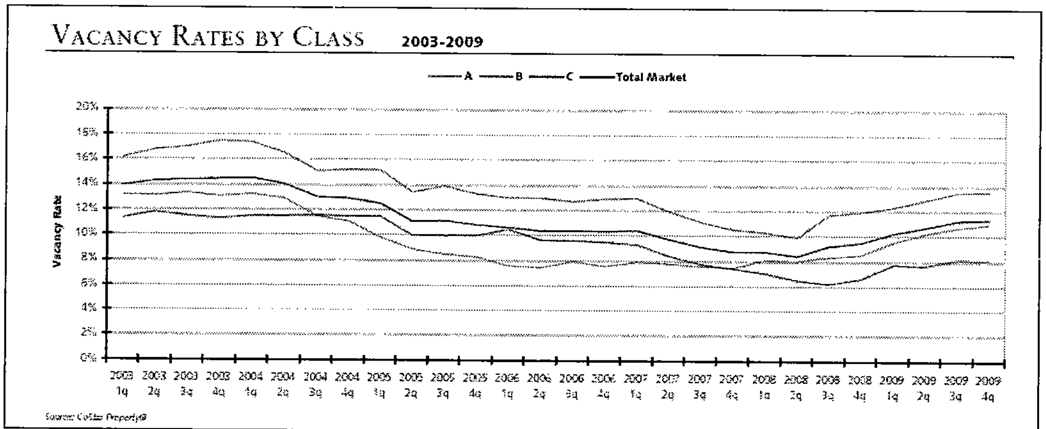
NATIONAL MARKET OVERVIEW

According to CoStar Group, 42 of the 63 metropolitan areas surveyed experienced an increase in vacancy during the past quarter, 13 areas experienced drops in vacancy, and eight markets saw vacancy remain unchanged during the quarter. Rental rates have declined, and construction is slowing. Overall, in terms of market vacancy and rental rate trends, the Portland metropolitan market is fairing better than the national average. The following table compares trends in the Portland metro area with national trends.

MARKET TRENDS
National vs. Portland Metro

	Portland	National
Total SF (Thousands)	89,008	8,449,205
Vacancy	11.3%	13.1%
Year to Date Construction (% of Total)	2.4%	1.1%
Under Construction (% of Total)	0.1%	0.7%
Rental Rate Trend (Past Quarter)	-1.4%	-1.1%

On the national level, vacancy rose across the board in all classes as depicted below.



Fifteen of the 63 markets surveyed had average vacancy over 15%, compared with national average of 13.1% and Portland average of 11.3%. The next table compares overall vacancies in Portland and some of the Western Region markets.

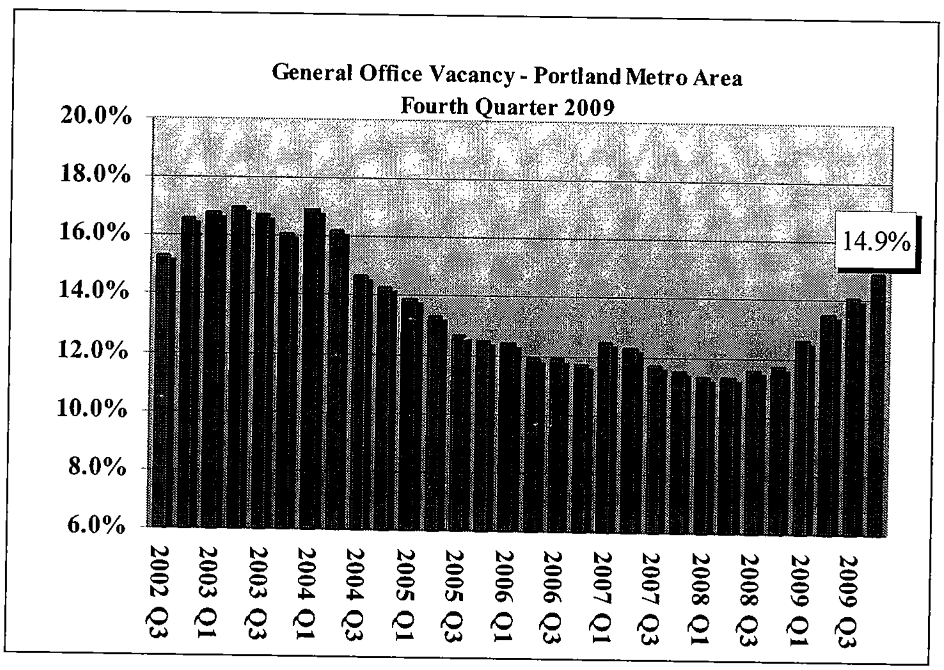
VACANCY IN WESTERN REGION MARKETS All Classes	
Portland	11.3%
Seattle	13.1%
Sacramento	15.9%
San Francisco	12.8%
Los Angeles	11.5%
San Diego	15.5%
Las Vegas	18.9%
Phoenix	21.2%

PORTLAND METROPOLITAN OVERVIEW

The following analysis relies on statistics found in Grubb & Ellis' *Trends - Portland Office Market* and *Office Quarterly Report* publications.

Portland-Vancouver's office market has approximately 51.47 million square feet of rentable area[1]. Of this total, there are 25.09 million square feet (48%) of Class A space, 19.2 million square feet (37%) of Class B space, and 7.2 million square feet (14%) of Class C space. This excludes owner-occupied and government-owned buildings.

Vacancy trends in the Portland-Vancouver area office market are summarized in the following graph:



The Portland metro office experienced decline in vacancy rates from 16.9% in early 2004 to 11.7% at the end of 2006. In early 2007, a number of sub-prime mortgage

1 *Office Quarterly Report*, Grubb & Ellis, 3rd Quarter 2009

lenders nationwide were forced to consolidate their branch offices or close down completely, leaving behind empty office space, resulting in an uptick in vacancy. For the next four quarters (through mid-2008), it appeared that the market was recovering from the closures of residential mortgage companies. However, the recession then took effect and office vacancy rates have steadily increased throughout the last half of 2008 and all of 2009. As of the fourth quarter, 2009 the metro-wide vacancy stands at 14.9%, a fairly significant increase over the 12.6% rate that prevailed in the first quarter, with increases in all classes of office.

The following table highlights past quarter and year-over-year vacancy rates in the individual submarkets:

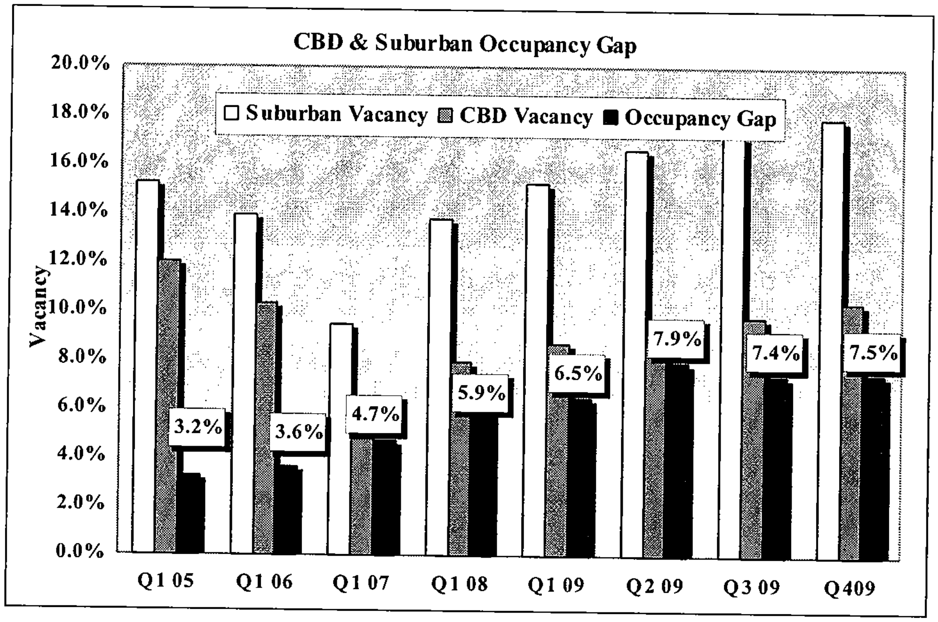
PORTLAND MSA OFFICE SUBMARKET VACANCY

	Class A					Class B					Class C				
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Beaverton/Sylvan	15.1%	18.2%	16.8%	16.9%	16.7%	14.5%	14.7%	15.8%	14.2%	15.0%	19.1%	21.1%	20.7%	20.7%	21.8%
CBD	5.1%	6.5%	6.5%	7.0%	7.3%	11.4%	11.0%	10.8%	11.8%	13.4%	11.3%	11.9%	12.2%	14.9%	15.3%
Clackamas/Sunnyside	10.9%	11.8%	10.7%	13.9%	15.4%	6.0%	7.0%	6.8%	7.1%	6.1%	5.1%	3.5%	3.8%	3.8%	2.9% *
Clark County	10.8%	14.2%	15.4%	16.5%	16.4%	15.1%	15.1%	16.1%	15.7%	18.4%	1.8%	4.4%	6.9%	5.9%	8.1%
Columbia Corridor	3.6%	4.5%	32.6%	32.2%	32.2%	20.7%	20.2%	18.8%	19.4%	19.1%	12.9%	12.9%	12.9%	12.9%	12.9% *
Eastside	3.4%	3.4%	5.9%	9.0%	9.4%	9.6%	8.6%	8.1%	8.2%	9.2%	7.0%	6.5%	6.2%	6.1%	6.0%
Johns Landing/Barbur Blvd.	12.4%	13.0%	11.7%	13.2%	16.0%	13.1%	13.2%	14.4%	14.2%	14.0%	15.1%	25.8%	25.8%	26.6%	25.8%
Lloyd District	3.5%	3.7%	3.4%	3.8%	4.5% *	9.3%	10.5%	15.0%	15.0%	15.1%	0.0%	0.0%	0.0%	0.0%	0.0% *
Northwest	No Class A Product				*	6.5%	7.0%	7.6%	7.3%	11.4%	7.4%	5.5%	9.0%	8.2%	8.6%
Sunset Corridor	21.2%	22.1%	22.6%	23.0%	23.9%	26.9%	32.7%	32.7%	36.7%	36.8%	10.2%	10.2%	10.2%	16.6%	16.6% *
Tualatin/Wilsonville	31.7%	30.9%	33.0%	33.8%	35.2%	24.9%	23.5%	22.9%	23.3%	22.7%	6.2%	3.3%	3.9%	11.7%	11.7%
Washington Sq/Kruse Way	15.8%	15.7%	19.8%	21.1%	21.5%	10.9%	19.6%	20.3%	20.2%	20.9%	5.7%	5.7%	5.2%	4.7%	4.9%
Portland MSA Overall	**10.9%**	**11.9%**	**13.1%**	**13.9%**	**14.3%**	**13.4%**	**14.3%**	**14.8%**	**14.9%**	**16.3%**	**9.9%**	**10.6%**	**11.1%**	**12.6%**	**13.2%**

* Submarket data set includes five or fewer buildings within the class.

While the trend for increasing vacancy continues, there are some positives to note. In comparison to the national averages, the Portland market appears to be faring well on a relative scale, and in terms of Class A alone, Portland is tied for the sixth lowest vacancy rate (10.5%) of the 63 markets surveyed by CoStar. Additionally, developers have responded to the downturn. All speculative construction has halted (except a few that were "past the point of no return") and the construction pipeline is fairly low with just 438,820 square feet now under construction. This is about ½ of the nearly 970,000 square feet under construction in the fourth quarter of 2008.

Vacancy rates in the Portland Metropolitan Area have favored the CBD in recent years when compared to the suburban office market. This is evidence of the slow, but steady migration from suburban office markets back to the urban core. The following graph shows the vacancy rate difference between the two markets since the first quarter of 2005.

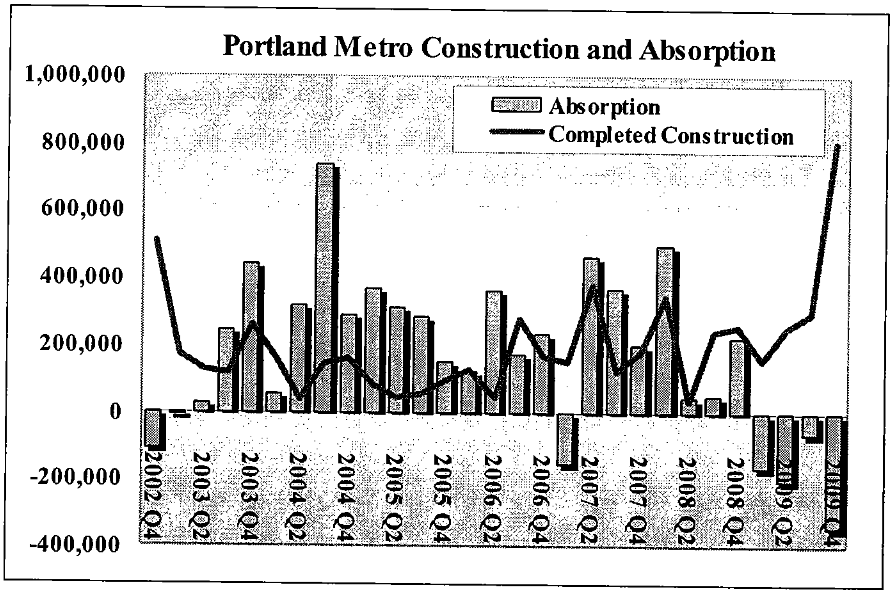


CONSTRUCTION & ABSORPTION

New completed construction in 2008 was 867,724 square feet, representing an increase of 5.62% over 2007. Of this new product, 53% was leased upon completion. Annual absorption in 2008 was 808,354 square feet. An additional 665,184 square feet has been completed through the third quarter of 2009.

The first quarter of 2009 was the first negative absorption since the first quarter of 2007 and absorption has been negative for all of 2009. In fact, the total annual absorption was negative 778,000. According to Grubb & Ellis, this is the worst absorption loss recorded in over 20 years.

Construction and absorption trends from 2001 to date are depicted in the chart below:



The good news is the construction pipeline continues to wane. Fourth quarter deliveries totaled just 105,976 square feet. Currently there is another 438,820 square feet of office under construction in the metro none of which has been pre-leased. Using an eight year average absorption rate (which includes the last recession when the area also had negative absorption) the recently completed availabilities and available space in product now under construction could absorb in about 18 months. However, current economic conditions make it difficult to predict absorption rates. The table below summarizes current construction in the individual submarkets:

ONGOING CONSTRUCTION - 4th Quarter 09				
Submarket	**Total SF Under Construction***	**Number of Buildings**	**Startup Availability SF**	**Pre-leased**
Beaverton/Sylvan				
CBD	368,800	1	368,800	0.0%
Clackamas/Sunnyside				
Clark County				
Columbia Corridor				
Eastside				
Johns Landing/Barbur Blvd.				
Lloyd District				
Northwest				
Sunset Corridor				
Tualatin/Wilsonville	70,020	1	70,020	0.0%
Washington Sq/Kruse Way				
Total	**438,820**	**2**	**438,820**	0.0%

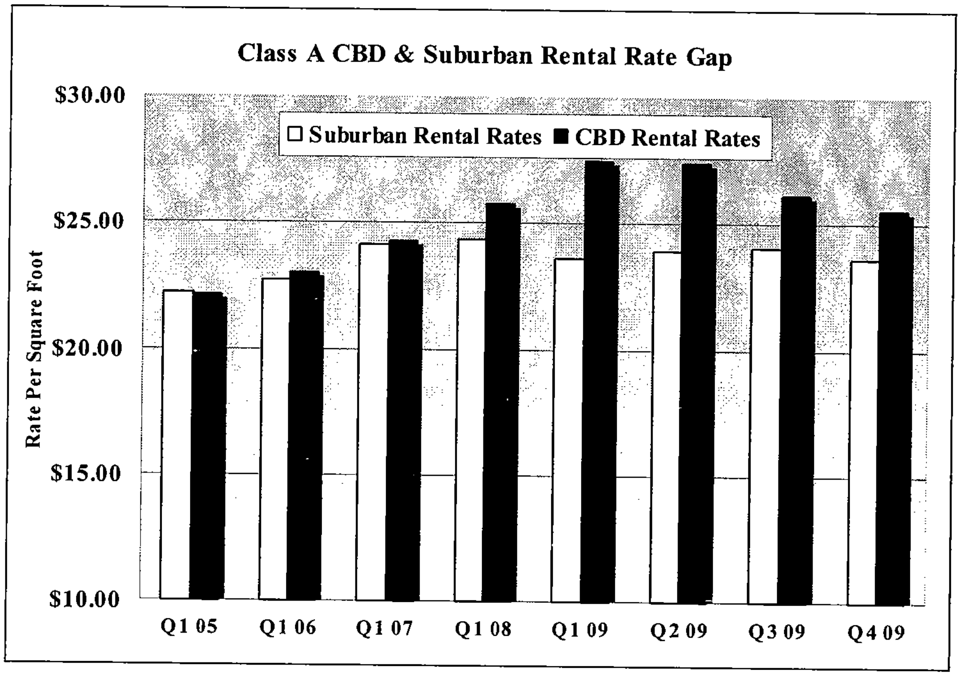
* Includes renovations, built-to-suit and construction for owner occupancy

RENTAL RATES & CONCESSIONS

Overall, Class A office rent rates dropped slightly in the past quarter from $24.51 to $24.03 (down 2%). Class A office rates are down 5% since the $25.30 rate posted in the fourth quarter of 2008.

Rental rates in the CBD surpassed suburban rental rates in 2006 and the rental rate gap between the two markets has continued to grow. Currently, Class A rents in the CBD are 8.1% higher than suburban Class A rents even though tenants in the CBD have the additional expense of parking, unlike many of their suburban counterparts.

The following graph shows the difference in rental rates in the CBD and suburban office market.



The following table highlights past quarter and year-over-year rental rates in the individual submarkets:[2]

2 Ibid.

PORTLAND MSA OFFICE SUBMARKET ASKING RENTAL RATES	Class A					Class B					Class C				
	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Beaverton/Sylvan	$23.53	$21.49	$20.95	$21.10	$20.36 *	$18.69	$19.21	$18.46	$18.02	$17.50	$15.75	$16.17	$14.87	$14.96	$14.83
CBD	$26.80	$27.44	$27.38	$26.15	$25.54	$21.24	$22.45	$21.92	$22.39	$22.38	$18.91	$19.33	$19.16	$18.71	$18.63
Clackamas/Sunnyside	$23.98	$23.75	$23.46	$24.25	$22.83	$22.34	$20.85	$20.12	$20.35	$20.17	$14.50	$14.50	$14.50	$14.00	$14.00 *
Clark County	$23.16	$24.79	$23.29	$24.46	$24.00	$18.33	$20.72	$19.76	$20.15	$17.87	$17.79	$17.62	$17.55	$18.45	$17.64
Columbia Corridor	$21.98	$21.98	$27.13	$28.56	$28.55 *	$16.26	$16.87	$17.72	$18.38	$18.10	$10.70	$14.38	$13.25	$13.26	$13.26 *
Eastside	$19.37	$16.58	$18.65	$22.71	$23.42	$18.59	$19.70	$19.31	$19.62	$18.73	$15.91	$15.20	$13.71	$13.46	$13.39
Johns Landing/Barbur Blvd.	$24.44	$24.10	$23.33	$23.21	$22.69 *	$18.77	$19.15	$18.25	$18.22	$18.30	$19.22	$19.03	$19.03	$18.91	$16.70
Lloyd District	$25.46	$23.90	$23.88	$23.71	$23.63 *	$18.55	$17.88	$18.32	$17.76	$17.42	N/Ap	$21.00	$21.00	$21.00	$21.00 *
Northwest	N/Ap	N/Ap	N/Ap	N/Ap	N/Ap *	$18.98	$18.34	$18.11	$18.06	$19.19	$22.45	$21.19	$21.10	$17.83	$18.03
Sunset Corridor	$20.92	$21.45	$21.52	$21.81	$20.95	$18.98	$18.73	$17.97	$17.81	$17.63	$14.00	$14.00	$14.00	$13.33	$13.33 *
Tualatin/Wilsonville	$26.37	$26.65	$25.24	$25.06	$24.85	$18.41	$20.68	$21.17	$21.34	$21.12	$16.75	$16.34	$18.22	$19.06	$17.29
Washington Sq/Kruse Way	$25.73	$24.40	$25.24	$25.13	$24.86	$19.49	$21.93	$20.95	$20.89	$20.74	$18.57	$20.47	$20.15	$19.39	$19.55
Portland MSA Overall	**$25.30**	**$23.42**	**$24.68**	**$24.51**	**$24.03**	**$19.88**	**$19.49**	**$19.49**	**$19.59**	**$19.18**	**$17.86**	**$18.67**	**$18.67**	**$17.94**	**$17.78**

* Submarket data set includes five or fewer buildings within the class.

Market participants expect that a lack of demand will continue to be a driving force in the near term. Attracting and retaining tenants will continue to be a top priority for most property owners, which will continue to put downward pressure on achievable rental rates. In spite of declining rental rates, concessions continue to be a common feature, but vary among the submarkets (depending on submarket conditions) as well as among property classes and space sizes.

CONCLUSION

Many analysts, including Moody's Economy.com and IHS Global Insight believe that the US recession ended in the summer, 2009. However, the recovery is expected to build slowly and is (like the last recession) being characterized as a "jobless" recovery. As such, the negative effects of the recession are expected to extend into 2010 and perhaps beyond. While Oregon continues to lose jobs, many indications are that the recession in Oregon has ended, or is near its end. Factors leading to this determination are:

- The Oregon economy generally follows the US economy;
- Two months of increases inn the Oregon Index of Leading Indicators (OILI);
- The Oregon unemployment rate has stabilized over the last 6 months;
- The job loss rate in the state has greatly slowed since last April;
- And, signs of improving conditions at publicly traded companies in Oregon show improvements in stock prices.[3]

Even if we are at, or near the end of the recession, the anticipation of beneficial effects of recovery are low. As noted above, this is expected to be a "jobless" recovery, which will result in an anemic recovery in the office markets. Despite the anemic recovery anticipated and Portland's poor performance in 2009, the area has been singled out as among those well positioned to emerge early. Moody's Economy.com predicts that Oregon will be among the first five states to experience recovery. Moody's further

3 Oregon Office of Economic Analysis, http://www.oregon.gov/DAS/OEA/docs/economic/executive.pdf

predicts that the job sectors to achieve the highest growth in the recovery are environmental services, biotechnology, computer software and services, and medical services. This bodes well for the Portland area, as these sectors are all well represented. Grubb & Ellis projects the office market to start out 2010 in the slow lane, but as recovery moves from tentative to meaningful, demand is expected to return and they are projecting office vacancy to stabilize by the end of 2010.

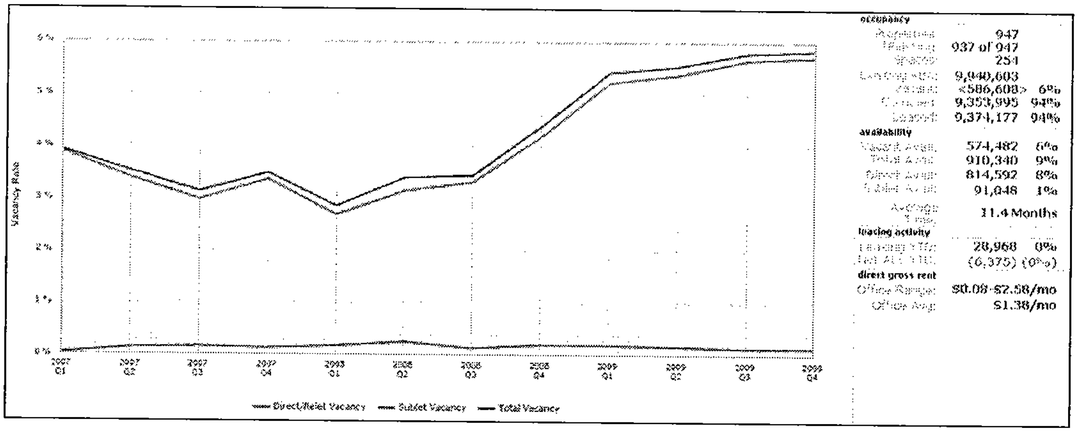
The demand for investment properties in the Portland office market is nearly zero. Owners are reluctant to sell property at a loss, and are willing to hold on until the market recovers. We anticipate an increase in distressed property sales in the near-to-mid term, while well-positioned property owners are expected to continue and sit on the sidelines. The general consensus among market participants is that the market is still on a downward trajectory and it will get worse before it gets better.

SUBMARKET ANALYSIS – EUGENE-SPRINGFIELD MSA

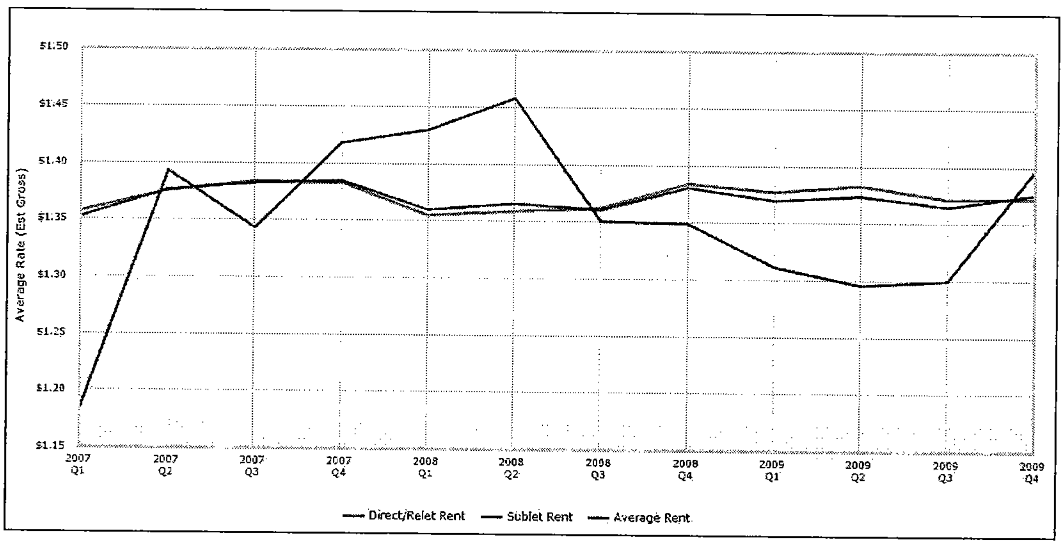
The total office vacancy rate remained stable at 11.64%, according to a 2008 report by Duncan and Brown, Eugene. After dropping to single digit rates in 1997 – 2001, vacancies began to rise and have been at 23.44%, 24.88%, and 26.40% for 2003, 2004, and 2005, respectively. From 2005 to 2008 the market grew significant and much of this vacancy was absorbed. While the 2008 survey is the most recent survey available, the economy has declined and it is estimated that vacancies are now higher due to both recent construction (including the subject) and the contraction of existing office demand. Most of the vacant space is located in downtown Eugene, an area that is not considered to compete directly with the subject.

There have been several new office developments in the immediate area north of downtown Eugene. The Ten on Coburg office building was completed in 2008 and is now just over 50% leased. This is the main competition for LEED certified office space in the area. Though it has a superior location closer to downtown, it is also further from Interstate-5 and the new Peace Health Sacred Heart Hospital on the east side of Interstate-5, north of Eugene. This new medical center has spurred Class A medical office development north of Eugene. Additionally, the Coburg Station proposed development, at the corner of Coburg and Game Farm Roads, will include a significant amount of new office space when complete. However, this is not anticipated to occur until the market corrects itself, which could take over two years. The subject building and The Ten on Coburg building, make up the majority of vacant office space in the immediate area. There is a significant amount of available land for development, but the subject is expected to be stabilized before any new construction enters the market.

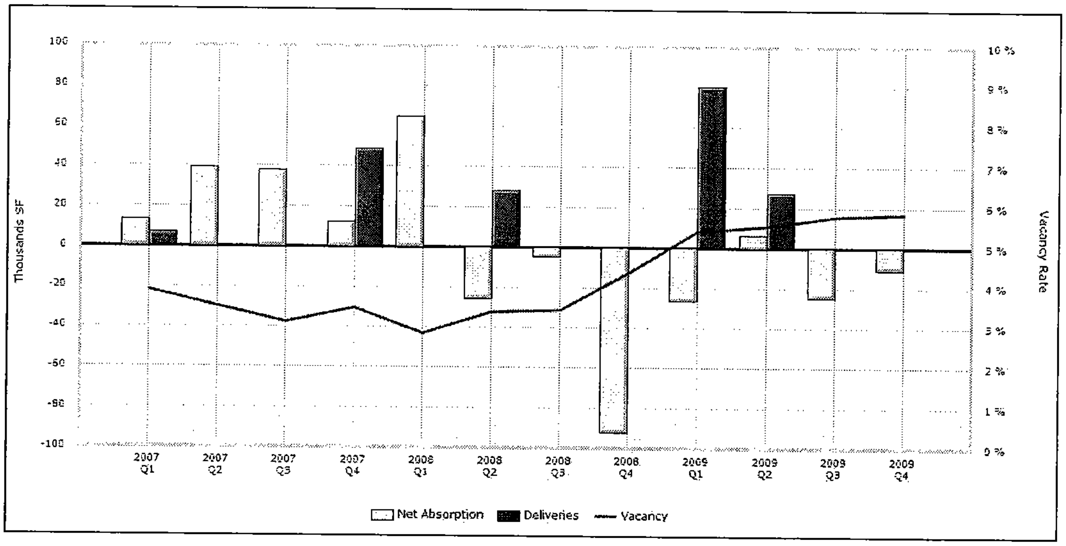
There are limited available data sources for the Eugene-Springfield office market; however, CoStar has been utilized to provide data on vacancy, rental rate trends, and supply/absorption. CoStar has only begun collecting data in the Eugene-Springfield market in the last four years and the survey is not believed to be comprehensive. Nevertheless, it is considered to be approximately representative.



Vacancy rate trends are shown on the chart above. Rates increased sharply from 3Q08 to 1Q09, but seem to be stabilizing. This is most likely not due to a strengthening of the market, but the lack of new supply. This trend is expected to continue though 2010.



This chart shows the trends in rental rates since the beginning of 2007. Rates for office properties have remained relatively flat despite rapid changes in occupancy. According to conversations with local brokers, owners have been offering higher tenant improvement allowances and free rent instead of lowering rental rates. The subject property has employed similar tactics with both office and retail tenants. Rental rates are not expected to drop in the foreseeable future, but may increase as the market recovers and the lack of new supply will drive pricing up. This is not expected to occur for at least two years.



This chart compares the net absorption, new supply, and vacancy rates since the beginning of 2007. The negative absorption prevalent in 2008 is slowing. As has been mentioned, there are no new office developments planned for at least several months and new supply is slowly absorbing. However, there was significant vacancy in this market before the recession began. Positive net absorption is not expected until the beginning of 2010.

CONCLUSION

Many analysts, including Moody's Economy.com and IHS Global Insight believe that the US recession ended in the summer, 2009. However, the recovery is expected to build slowly and is (like the last recession) being characterized as a "jobless" recovery. As such, the negative effects of the recession are expected to extend into 2010 and perhaps beyond. While Oregon continues to lose jobs, many indications are that the recession in Oregon has ended, or is near its end. Factors leading to this determination are:

- The Oregon economy generally follows the US economy;
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Even if we are at, or near the end of the recession, the anticipation of beneficial effects of recovery are low. As noted above, this is expected to be a "jobless" recovery, which

4 Oregon Office of Economic Analysis, http://www.oregon.gov/DAS/OEA/docs/economic/executive.pdf

will result in an anemic recovery in the office markets. Despite the anemic recovery anticipated and the area's poor performance in 2009, the area has been singled out as among those well positioned to emerge early. Moody's Economy.com predicts that Oregon will be among the first five states to experience recovery. Moody's further predicts that the job sectors to achieve the highest growth in the recovery are environmental services, biotechnology, computer software and services, and medical services. This bodes well for the Portland area, as these sectors are all well represented. Grubb & Ellis projects the office market to start out 2010 in the slow lane, but as recovery moves from tentative to meaningful, demand is expected to return and they are projecting office vacancy to stabilize by the end of 2010.

The demand for investment properties in the Eugene-Springfield Metro office market is nearly zero. Owners are reluctant to sell property at a loss and are willing to hold on until the market recovers. We anticipate an increase in distressed property sales in the near-to-mid term, while well-positioned property owners are expected to continue and sit on the sidelines. The general consensus among market participants is that the market is going to get worse before it gets better. However, the Eugene-Springfield Metro market is fundamentally sound and better equipped to withstand the current recession than many other competing markets.

RETAIL MARKET ANALYSIS

DATA SOURCES

For the purpose of correlating market conditions in the Portland metro area with national conditions, we primarily rely on data compiled by CoStar Properties, the only readily available, comprehensive source of national data published on a quarterly basis. Even though CoStar's average vacancy and rental rate figures for the Portland metro area typically differ slightly from data published by local sources, who are more in tune with the nuances of the local market, CoStar has extensive national presence, and assuming consistency of data among all markets, CoStar provides a good indication of trends on the national level. It also provides a benchmark that makes it possible to evaluate the relative strength of the Portland market on a national level.

To analyze market conditions on the local (Portland metro area) level, we also rely on reports generated by brokerage firms with a strong local presence such as Norris Beggs & Simpson, Marcus & Millichap, Norris & Stevens, GVA Kidder Matthews and others as referenced below. These sources, who are intimately familiar with the local submarkets, are well aware of trends that may be unique to the local area, and are knowledgeable about significant sale and lease transactions in the local market.

NATIONAL MARKET OVERVIEW

U.S. retail market conditions appear to be stabilizing. After three consecutive quarters of increases in vacancy from 6.7% at the end of 2008 to 7.6% in the third quarter 2009, vacancy remained unchanged at 7.6% in the fourth quarter 2009. In comparison, Portland finished the fourth quarter with an overall vacancy of 6.0%, below the national average. Nationwide, net absorption was positive; however, rental rates continued their decline from $17.41 at the beginning of the year to $16.91 in the third quarter and down again to $16.59 at the end of the year. Construction levels in the fourth quarter 2009 were still well below 2008 levels with only 14.3 million square feet delivered. The table below provides a comparison of the Portland metro area with other markets in the region as well as with national averages.

CONDITIONS IN SELECT WESTERN REGION MARKETS

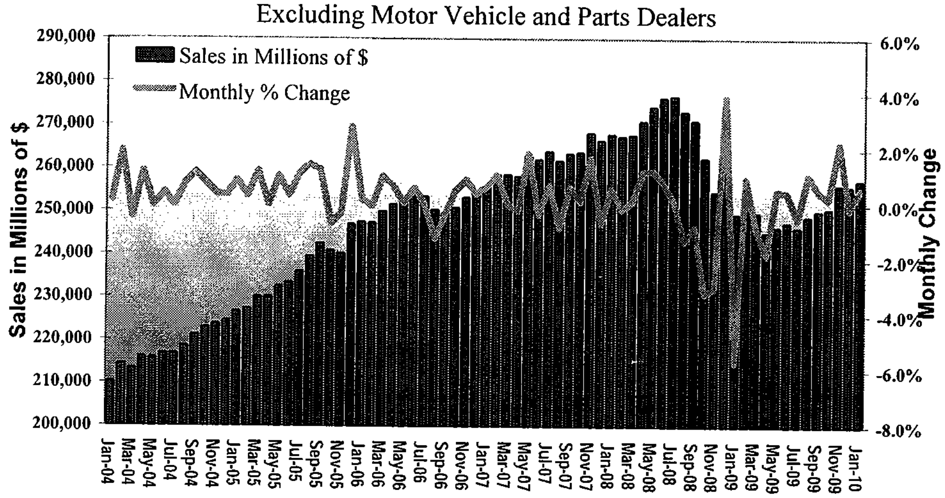
	Leasable SF (x1,000)	Vacancy %	Absorption QTD SF	Under Construction	Quoted Rent
Las Vegas	39,395	9.7%	356,784	1,537,708	$22.62
Los Angeles	211,729	5.0%	53,267	1,362,561	$27.46
Phoenix	49,746	11.9%	(615,380)	367,051	$17.52
Portland	**49,514**	**6.0%**	**(12,223)**	**249,350**	**$17.25**
Sacramento	41,408	10.5%	(85,515)	796,245	$19.50
San Diego	58,129	5.3%	362,072	401,242	$23.26
San Francisco	65,213	3.1%	(6,116)	184,119	$32.10
Seattle/Puget Sound	83,493	6.4%	209,042	306,083	$19.31
National	**9,200,780**	**7.6%**	**10,368,004**	**37,063,947**	**$16.59**

The retail sector is directly impacted by consumer spending and unemployment, two key forces shaping the economy. Retail sales have experienced a sharp decline starting July 2008, and reached a new low in April 2009. The downward trend appears to have been reversed, and sales volume has now increased in seven of the past nine months. Overall, sales still remain slightly below 2007 levels.

Historical trends in retail sales are depicted in the following graph:

Trends in U.S. Retail Sales

Excluding Motor Vehicle and Parts Dealers



http://www.census.gov/retail/marts/www/timeseries.html

December sales were better than expected; however, sales transactions were largely driven by discounts. Retailers have made necessary adjustments in their operations, and are now carrying less inventory, thus decreasing the need for clearance sales, which cut into the retailers' profit. Although experts still predict that retailers will need to continue to offer discounts to draw customers, the discounts will not be as deep. The National Retail Federation recently predicted that U.S. retail sales will rise 2.5 percent in 2010 as the housing and job markets stabilize.

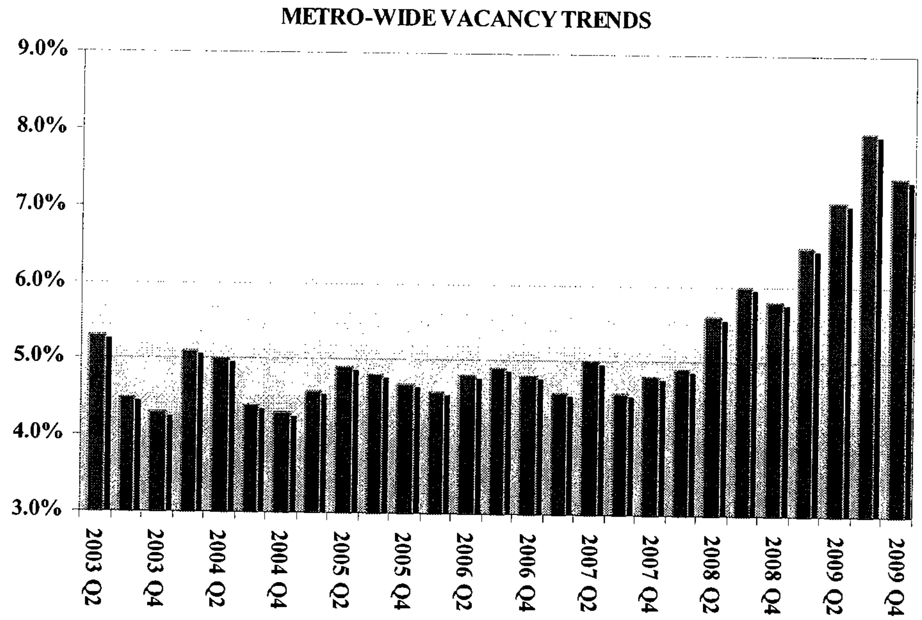
PORTLAND METRO AREA

For several quarters following the onset of the last recession, key indicators implied that Portland was somehow able to maintain stability regardless of national conditions. The Portland metro retail market finally began to feel the effects of the recession in early 2009.

Vacancy

According to Norris Beggs & Simpson, the Portland retail sector closed 2008 with relatively strong statistics, but conditions deteriorated significantly over the following three quarters, during which vacancy peaked at 8.0%. As of the fourth quarter 2009, overall vacancy was 7.4%. Although year-over-year this is a 90-basis point increase, a

slight decrease in the last quarter of 2009 suggests that the market may have turned the corner. The following graph depicts these trends.



Some of the increase in vacancy in 2009 is attributable to new construction, almost 50% of which was delivered in Vancouver. Another reason for the increase in overall vacancy is the failure of several major retailers, which added a significant amount of vacant space to already available supply. This includes Joe's Sporting Goods, who vacated ten stores in the Portland metro area in April 2009 and Circuit City, who liquidated four stores in early 2009, following in the footsteps of Circuit City, Linens 'n Things, and Wickes Furniture, who collectively liquidated eleven "big box" spaces in the Portland metro area in 2008. On a more positive note, Dick's Sporting Goods leased four of the vacant big box spaces (over 220,000 square feet total) at the end of 2009; PetSmart opened three new stores around the metro area, and Dollar Tree has also expanded into three new locations.

Strip convenience centers have suffered the sharpest increase in vacancy over the past year from 13.0% to 18.9%, which is not surprising as strip centers are frequently occupied by smaller, local tenants, who are more vulnerable to changes in the economy than large national tenants. The lowest vacancy is in super regional centers (2.2%) followed by community centers (5.8%).

Rental Rates

Currently the best source of overall rental rates for the Portland metro area is CoStar Properties, who tracks over 104 million square feet of retail space in the area.

After reaching a peak in mid-2008, asking rental rates have retracted to a current average of $17.25 per square foot. Landlords have responded to rising vacancies by

lowering their expectations. Concessions have become prevalent; landlords have been willing to sign early renewals at lower rates and grant temporary rent reductions to struggling tenants in order to avoid additional vacancy. However, as of the fourth quarter 2009, asking rents appear to be stabilizing ($17.25 at the end of the quarter compared with the preceding quarter's $17.21).

New Construction

After significant deliveries over the past year, construction has slowed significantly in response to the downturn in retail sales. Only three submarkets currently show ongoing construction; these projects will add only 49,000 square feet to the existing inventory of nearly 43.8 million square feet. This pace of construction is equivalent to an annual rate of 196,000, a far cry from the 419,000 square feet delivered in 2008. The largest project recently completed is located in the Eastside submarket (approximately ±141,000 near the Cascade Station delivered last quarter).

For the past several years, Vancouver has led the market area in new construction, resulting in a significant increase in vacancy in that submarket (currently 10.6%, highest of the Portland metro submarkets). Future new construction in Vancouver will likely be nominal while the submarket is absorbing existing vacant space. The proposed Landing of Evergreen, a lifestyle center in Clark County, recently fell through due to the loss of Whole Foods as an anchor. This project was subsequently assumed by ELD Development, who plans to develop a $215,000,000 mix of retail, office and residential uses called The Village at Evergreen. Construction has been placed on hold and no start date is available. Gramor purchased 32 acres on the Columbia River (former Boise Cascade site) in January 2008 with plans for a mixed-use development including retail and housing; according to a June 2009 article in The Columbian, the earliest time construction will start is 2011.

Summary of Key Indicators

The following table, based Norris Beggs & Simpson's fourth quarter 2009 survey, summarizes key indicators in the individual submarkets.

PORTLAND METRO SUBMARKET ABSORPTION & CONSTRUCTION
Fourth Quarter 2009

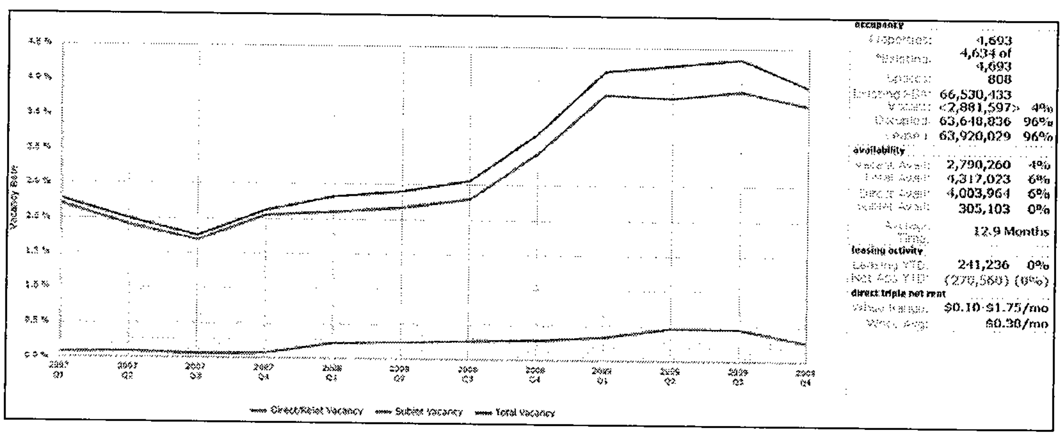
	Inventory SF	Total Avail. SF	% Vacant	QTD Net Absorption SF	SF Under Construction
122nd/Gresham	5,584,883	391,902	7.0%	-5,737	0
Central City	2,552,621	232,322	9.1%	18,443	0
Southeast/East Clackamas	5,259,374	214,051	4.1%	14,076	17,000
Eastside	6,305,437	324,399	5.1%	179,468	10,022
Sunset Corridor	5,254,645	363,097	6.9%	29,094	0
Southwest	10,197,952	790,454	7.8%	69,454	0
Vancouver	8,639,860	915,385	10.6%	45,121	21,978
Total	43,794,772	3,231,610	7.4%	349,919	49,000

SUBMARKET ANALYSIS – EUGENE-SPRINGFIELD MSA

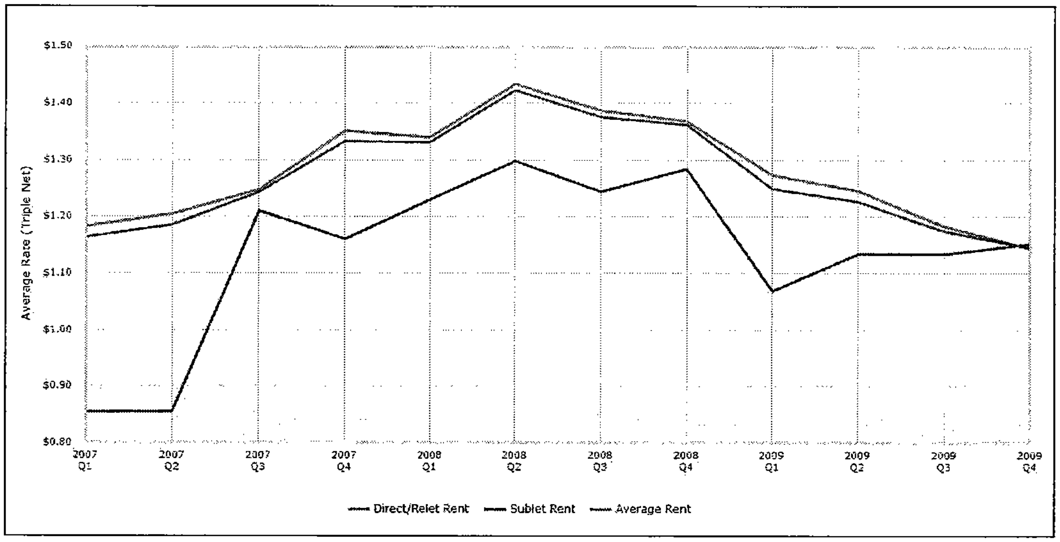
The Eugene-Springfield Metro Area finally began to show the effects of the recession in the first quarter of 2009, and these negative trends have continued in the current quarter. Vacancies have risen dramatically and proposed construction is almost non existent.

There is significant retail development south of the subject, with Costco as the major retail tenant. Other big-box retailers in the area include Office Depot, PetSmart, and Shopko, and these are surrounding by smaller pad and in-line retail spaces. The subject property (and the greater Crescent Village PUD) includes the newest retail development in the immediate area and there are no other similar mixed-use developments nearby. The closest similar retail/residential development is Broadway Place, located on the south side of downtown Eugene. This is also a newer project with first floor retail space for lease; however, there is no on-site parking for consumers, which gives the subject superior marketability. According to the subject owner, the restaurants at the surrounding Crescent Village development have had significant success with the mixed-use nature of the project, as business from residents has been substantial. It is anticipated that as more apartment units are developed the retail units will lease up. However, there is still significant vacant space in the earlier phases of the Crescent Village development and it is anticipated that the subject will lease up slowly due to this significant supply of similar product.

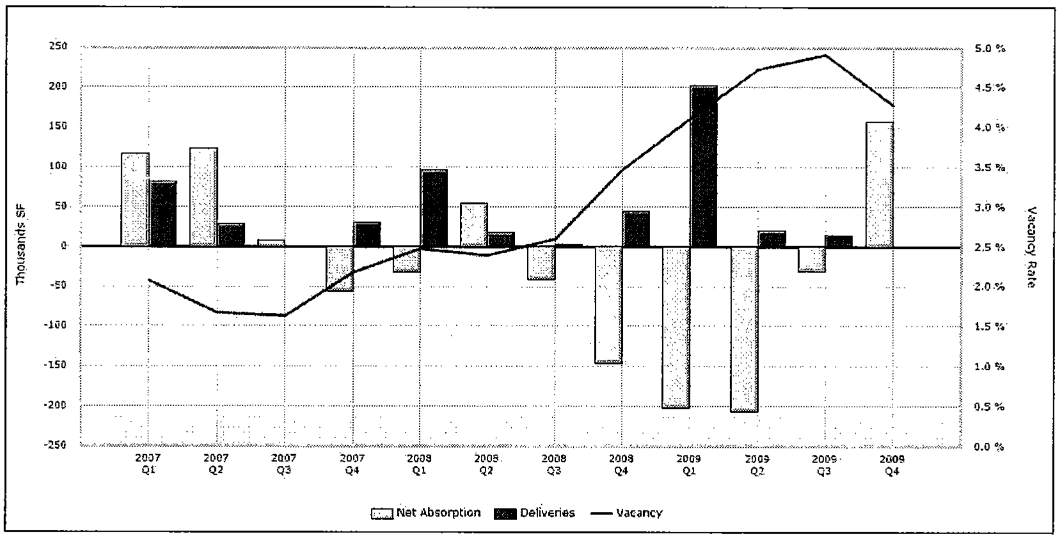
There are no local comprehensive data sources for this market. Therefore, CoStar data is utilized for the retail component as well. Vacancy, rental rate trends, and supply/absorption are discussed below.



The chart above shows recent vacancy rate trends as well as a summary of the market. Clearly, vacancy rates are increasing, though the rapid correction seems to be stabilizing in mid 2009. This trend is expected to continue as no new supply will enter the market for at least 12 months. It is also noted that the vacancy rates shown above are considered low, as conversations with local brokers indicate an overall vacancy rate closer to 8%.



This chart outlines the change in rental rates since the beginning of 2007. Rates peaked in mid-2008 and have been steadily dropping since. It is noted that this chart reflects trends for all retail properties surveyed in the Eugene-Springfield market. The subject property is a high-end mixed use development with fewer competing properties. However, these trends are expected to impact the income potential of the subject.



This chart compares the net absorption, new supply, and vacancy rates since the beginning of 2007. While the beginning of the recession in late 2008 shows significant negative absorption, the fourth quarter of 2009 showed significant positive absorption. As has been mentioned, there are no new retail developments planned to enter the market for several months and existing supply is slowly absorbing. Continuing positive net absorption should be seen in the beginning of 2010.

CONCLUSION

The Eugene-Springfield Metro market, like Portland, had remained one of the stronger retail markets in the United States until the current quarter. With a current vacancy of near 8% and trends continuing to deteriorate, the area has slipped behind national averages. Vacancies have risen and brokers are reporting a decline in achievable rental rates. New construction will continue to wane, but rents look to be stabilizing and positive net absorption should be achieved in early 2010. The outlook is tentatively positive, acknowledging the national market trends.

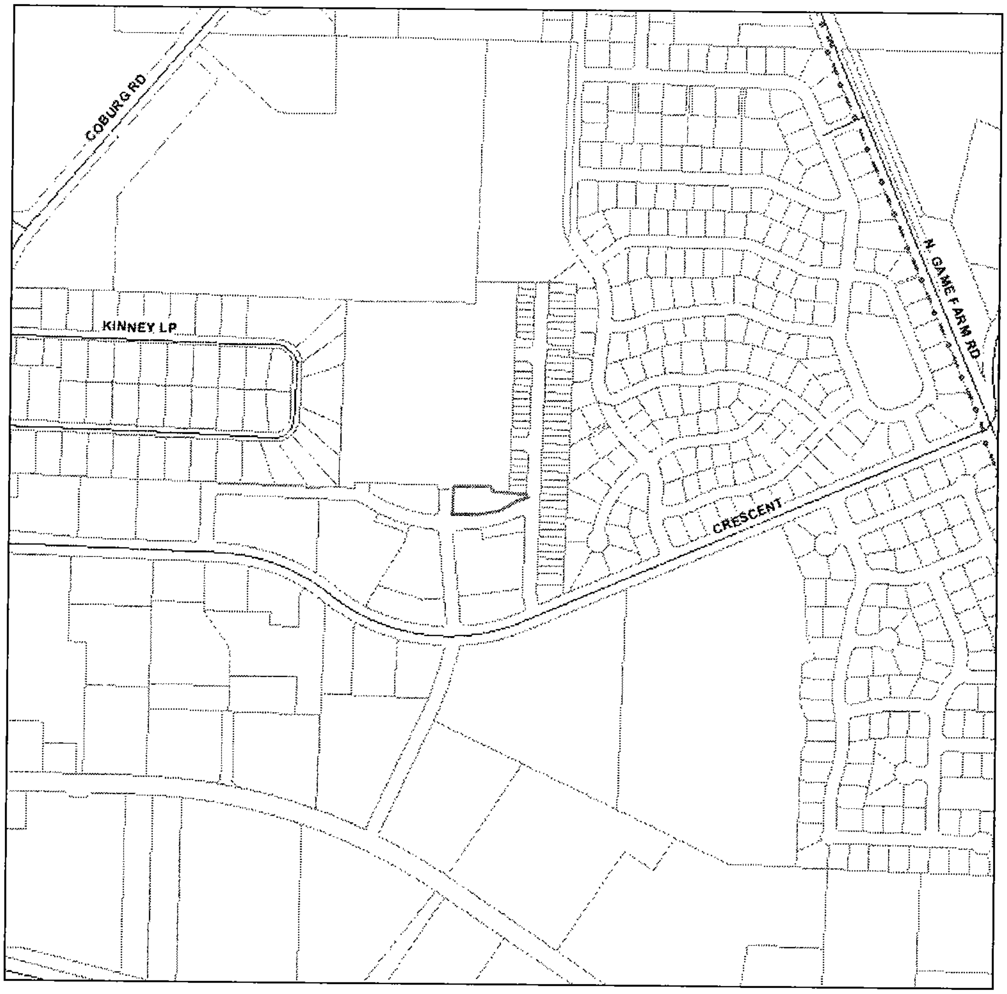
In comparison to the region overall, the Eugene-Springfield submarket is rated as follows:

SUBMARKET ATTRIBUTE RATINGS	
Market Size/Stature	Average
Market Demand/Rental Increases	Average
Vacancy Trends	Average
Barriers to Entry	Above Average
Threat of New Supply	Average

PROPERTY ANALYSIS

LAND DESCRIPTION AND ANALYSIS

PARCEL MAP



LOCATION

The subject is on the north side of Crescent Avenue, a local connector street running east/west. The main access to the development is along Shadow View Drive, a north/south internal road. The subject is located at the northeast corner of Tennyson Avenue and Shadow View Drive; however, this is an internal street system to the PUD and the corner location does not provide additional exposure along neighborhood thoroughfares, such as Crescent Avenue.

LAND AREA

The following table summarizes the subject's land area.

LAND AREA SUMMARY

Tax ID	SF	Acres
1743176	27,007	0.62
Total	27,007	0.62

SHAPE AND DIMENSIONS

The site is irregular in shape, as shown on the parcel map on the previous page. Site utility based on shape and dimensions is slightly below average, as the eastern portion of the site has limited utility. However, utilizing this area as parking and landscaping area in any potential development would be reasonable and the shape does not limit the development potential of the site.

TOPOGRAPHY

The site is generally level and at street grade. The topography does not result in any particular development limitations.

DRAINAGE

No particular drainage problems were observed or disclosed at the time of field inspection. This appraisal assumes that surface water collection, both on-site and in public streets adjacent to the subject, is adequate.

FLOOD HAZARD STATUS

The following table provides flood hazard information.

FLOOD HAZARD STATUS	
Community Panel Number	41039C1133F
Date	June 2, 1999
Zone	X
Description	Outside of 500-year floodplain
Insurance Required?	No

ENVIRONMENTAL HAZARDS

An environmental assessment report was not provided for review, and during our inspection, we did not observe any obvious signs of contamination on or near the subject. However, environmental issues are beyond our scope of expertise. It is assumed that the property is not adversely affected by environmental hazards.

GROUND STABILITY

A soils report was not provided for our review. Based on our inspection of the subject and observation of development on nearby sites, there are no apparent ground stability problems. However, we are not experts in soils analysis. We assume that the subject's soil bearing capacity is sufficient to support the existing improvements.

STREETS, ACCESS AND FRONTAGE

Details pertaining to street access and frontage are provided in the following table.

STREETS, ACCESS AND FRONTAGE		
Street	Tennyson Avenue	Shadow View Drive
Paving	Asphalt	Asphalt
Curbs	Yes	Yes
Sidewalks	Yes	Yes
Lanes	Two	Two
Direction of Traffic	Two-way	Two-way
Condition	Good	Good
Traffic Levels	Low	Low
Signals/Traffic Control	Stop signs	Stop signs
Access/Curb Cuts	Adequate	Adequate
Visibility	Adequate	Adequate

UTILITIES

The availability of utilities to the subject is summarized in the following table.

UTILITIES	
Service	Provider
Water	Eugene Water & Electric Board
Sewer	City of Eugene
Electricity	Eugene Water & Electric Board
Natural Gas	NW Natural
Local Phone	Qwest

ZONING

The subject is zoned R-4/PD, High-Density Residential with PUD Overlay, by City of Eugene. Specific zoning requirements are summarized in the following table.

ZONING SUMMARY	
Zoning Jurisdiction	City of Eugene
Zoning Designation	R-4/PD
Description	High-Density Residential with
Legally Conforming?	Yes
Zoning Change Likely?	No
Permitted Uses	Mix of high density residential,
Category	Zoning Requirement
Parking Requirement	1.5 spaces per 1,000 SF
Source: Lane County Code	

According to the local planning department, there are no pending or prospective zoning changes. It appears that the current use of the site is a legally conforming use.

OTHER LAND USE REGULATIONS

We are not aware of any other land use regulations that would affect the property.

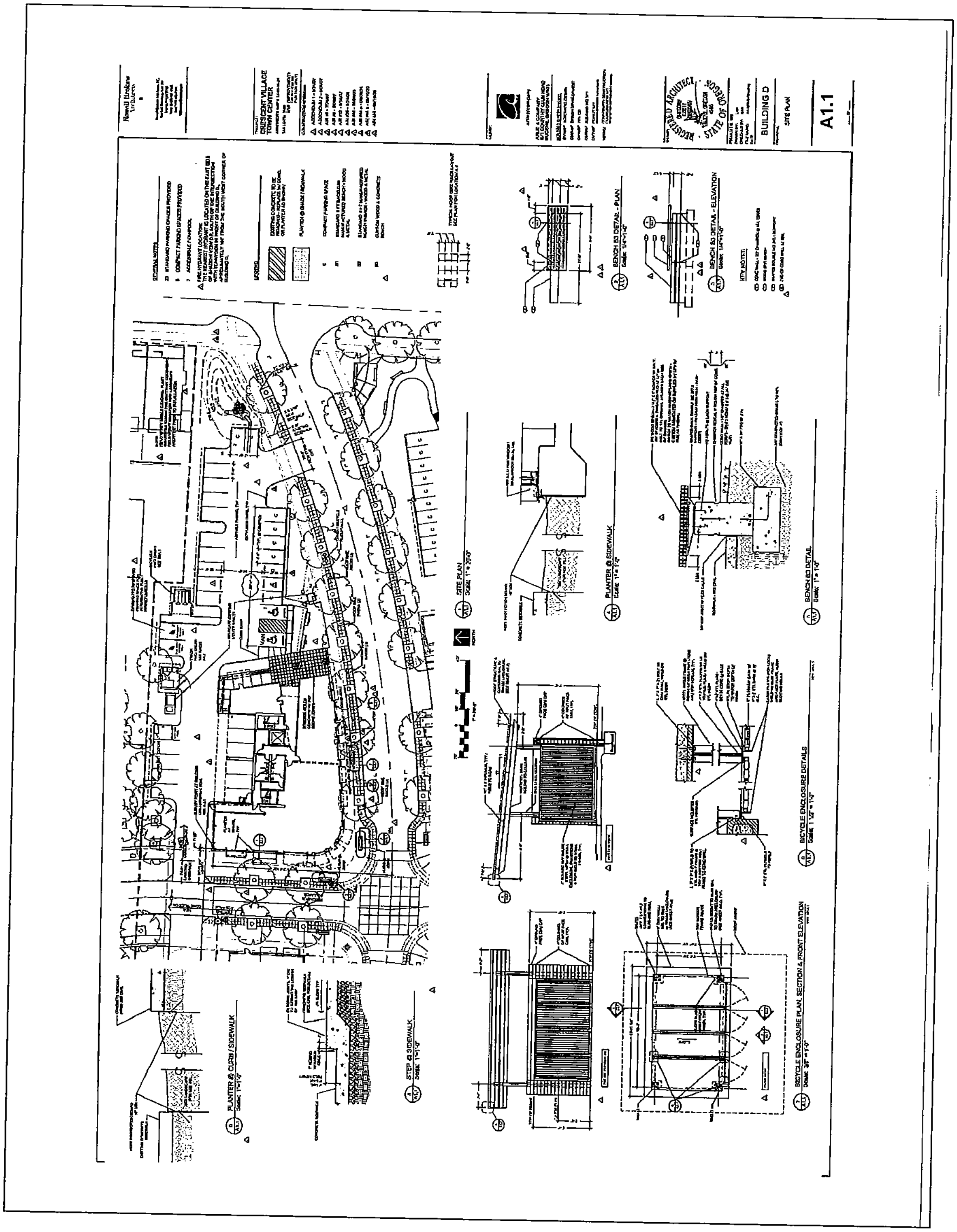
EASEMENTS, ENCROACHMENTS AND RESTRICTIONS

We were not provided a current title report to review. We are not aware of any easements, encumbrances, or restrictions that would adversely affect value. However, there is a cross parking easement between all sites in the Crescent Village PUD that benefits the subject, as it is a smaller site with limited development potential without adequate off-site parking. Our valuation assumes no adverse easements, encroachments or restrictions and that the subject has a clear and marketable title.

CONCLUSION OF SITE ANALYSIS

The subject site is an irregularly shaped parcel in the larger Crescent Village PUD development, which currently includes two retail/residential buildings in addition to the subject property. The existing buildings are surrounded by vacant land approved for a mix of office, retail, and residential uses. Overall, the physical characteristics of the site and the availability of utilities result in functional utility suitable for a variety of uses including those permitted by zoning. Uses permitted by zoning include mix of high density residential, office, and retail uses. There are no other particular restrictions on development noted in the analysis.

SITE PLAN


CRESCENT VILLAGE TOWN CENTER
BUILDING D
A1.1
SITE PLAN
BENCH B3 DETAIL - PLAN
BENCH B3 DETAIL - ELEVATION
PLANTER @ SIDEWALK
BENCH B3 DETAIL
BICYCLE ENCLOSURE DETAILS
BICYCLE ENCLOSURE PLAN, SECTION & FRONT ELEVATION
PLANTER @ CURB / SIDEWALK
STEP @ SIDEWALK

IMPROVEMENTS DESCRIPTION AND ANALYSIS

OVERVIEW

The subject is an existing office property containing 32,437 square feet of rentable area. The improvements were constructed in 2009, and are 49% leased as of the effective appraisal date. The site area is 0.62 acres, or 27,007 square feet.. The following description is based on our inspection of the property, discussions with ownership, and a review of building plans.

IMPROVEMENTS DESCRIPTION	
Name of Property	2911 Tennyson, Bldg D
General Property Type	Office
Property Sub Type	Mixed Use: Office-Retail
Competitive Property Class	A
Occupancy Type	Multi-Tenant
Percent Leased	49%
Number of Tenants	3
Tenant Size Range (SF)	961 - 9,382
Number of Buildings	1
Stories	4 full floors, with a partial mezzanine on the 4th floor
Building Shape	Irregular
Construction Class	A
Construction Type	Steel frame
Construction Quality	Excellent
Condition	New
Gross Building Area (SF)	35,285
Rentable Area (SF)	32,437
Usable Area	29,902
Building Efficiency Ratio	91.9%
Load Factor	8%
Land Area (SF)	27,007
Floor Area Ratio (RA/Land SF)	1.20
Floor Area Ratio (GBA/Land SF)	1.31
Building Area Source	Leases, Plans
Year Built	2009
Year Renovated	N/A
Actual Age (Yrs.)	3
Estimated Effective Age (Yrs.)	1
Estimated Economic Life (Yrs.)	50
Remaining Economic Life (Yrs.)	49
Number of Parking Spaces	32
Source of Parking Count	Inspection
Parking Type	Surface
Parking Spaces/1,000 SF RA	0.99
Landscaping	Adequate; shrubs surrounding the parking area
Special Features	On-site bioswale

CONSTRUCTION DETAILS	
Foundation	Concrete slab
Basement	None
Structural Frame	Steel
Exterior Walls	Painted stucco
Windows	UV coated double paned windows
Roof	Built-up
Interior Finishes	Typical Class A office finishes including environmentally friendly
Floors	A mix of cork, bamboo, commercial carpet, and stone
Walls	Painted textured sheetrock
Ceilings	Mix of painted textured sheetrock and acoustical tile; the top floor has tongue-and-groove wood ceilings
Lighting	Fluorescent
Floor Plate	The service core is central to the building and includes one elevator and stairway. There are also restrooms in the central hallway on each floor.
HVAC	Roof mounted, ground water heat transfer system. Extra ventilation in retail space to accommodate a potential restaurant tenant.
Electrical	Adequate
Plumbing	Adequate. There are grease traps in the retail space plumbing to accommodate a potential restaurant tenant.
Elevators	One elevator
Rest Rooms	One set on each of the second through fifth floors. It is assumed any retail tenant on the main floor would include adequate restrooms.
Sprinklers	Wet System
Security	Adequate

OCCUPANCY STATUS

The property is 20% leased to a total of 3 tenants. A total of 16,588 square feet are presently vacant. However, Arlie & Company is not paying rent on the top floor space and it is assumed vacant for our analysis. Therefore, there is a total of 25,970 square feet currently available.

IMPROVEMENTS ANALYSIS

Quality and Condition

The improvements are of excellent quality construction and are in new condition. The subject property is a four story office/retail mixed use building in the larger Crescent Village PUD. The building was completed in February 2009 and is considered Class A office. The building acquired LEED Gold certification with the fourth floor interior achieving a Platinum level certification, and includes several specialized improvements including lighting sensors, self-adjusting window blinds, certified "green" building materials, ground source water HVAC system, and a specialized storm water drainage system that provides irrigation for landscaping. It is noted that the subject has less parking on-site than most competing properties. However, based on the cross parking easement with other buildings in the PUD the overall parking ratio is closer to two spaces per 1,000 SF. While this is still slightly below market standards, there is available street parking. The low parking ratio will likely limit the number of service

tenants at the subject, such as medical office, but will not limit the marketability to tenants that require fewer parking spaces.

Overall, the quality and condition of the subject is considered to be superior to that of competing properties, as the subject is LEED certified. However, this is tempered by the low parking ratio and the location of the subject in a developing area with lower traffic counts.

Functional Utility

The improvements appear to be adequately suited to their current use. The building has a centrally located service core, providing good circulation to tenant spaces. The floor plate is a reasonable size and could accommodate up to four tenants per floor, though two or three would be more likely. The load factor is 8%, which is lower than most comparable buildings. The common area is considered adequate; therefore, the load factor is considered an amenity and will increase the marketability of the building. While the property is located on the interior of a larger PUD development, the amount of residential uses and the high profile of the building provide adequate exposure. The subject does have limited on-site parking; however, the surrounding development has adequate parking and the marketability is not limited by the parking ratio. Based on our inspection and consideration of the foregoing, there do not appear to be any significant items of functional obsolescence.

Deferred Maintenance

No deferred maintenance is apparent from our inspection and none is identified based on discussions with ownership.

ADA Compliance

Based on our inspection and information provided, we are not aware of any ADA issues. Given its recent construction, the property is presumably ADA-compliant. However, we are not expert in ADA matters, and further study by an appropriately qualified professional would be recommended to assess ADA compliance.

Hazardous Substances

An environmental assessment report was not provided for review and environmental issues are beyond our scope of expertise. No hazardous substances were observed during our inspection of the improvements; however, we are not qualified to detect such substances. Unless otherwise stated, we assume no hazardous conditions exist on or near the subject.

Personal Property

There are no personal property items that would be significant to the overall valuation.

CONCLUSION OF IMPROVEMENTS ANALYSIS

In comparison to other competitive properties in the region, the subject improvements are rated as follows:

IMPROVEMENTS RATINGS	
Visibility	Below Average
Design and Appearance	Above Average
Age/Condition	Average
Lobby	Average
Interior Amenities	Average
Floor to ceiling heights	Average
Elevators	Average
Parking Ratios	Average
Distance of Parking to Building Access	Average

Overall the quality, condition, and functional utility of the improvements are typical for their age and location.

REAL ESTATE TAX ANALYSIS

State and local taxation in Oregon relies on income taxation at the state level and property taxes at the local level. Real Market Value (RMV) is established by the County Assessor's Office and predicated upon a physical appraisal every six years and is trended during each of the intervening five years. Measure 50 created a new value limit called, “Maximum Assessed Value (MAV),” which rolls back the 1997-98 assessed value to 90% of the 1995-96 RMV.

The lower of RMV or MAV is called the “Assessed Value”. Property taxes are now calculated using this Assessed Value. Growth in assessed value is limited to 3% per year. Thus, property taxes are no longer directly tied in with real market value. There are some exceptions with respect to the 3% growth limit, such as new construction.

The tax year extends from July 1 through June 30, and the County Assessor's Office estimates value as of July 1 of each year. Property taxes are due and payable on November 15. A 3% discount is available if paid in full by November 15. A 2% discount is also obtainable if two-thirds of the amount is paid by this date. Another alternative is to make three equal (one-third) payments, on or before the 15th of November, February and May. Any balance owed begins to accrue interest after May 15, and counties initiate foreclosure if three years of taxes become delinquent.

According to the Lane County Assessor's Office, the subject is assessed as one account for the 2009/2010 tax year, as follows:

TAXES AND ASSESSMENTS - 2009-2010

	Assessed Value			Taxes and Assessments			
Tax ID	Land	Improvements	Total	Tax Rate	Ad Valorem Taxes	Direct Assessments	Total
1743176		$4,415,937	$4,415,937	1.854100%	$81,876		$81,876

The property tax payments are up to date. The Assessor’s Taxable Value estimates (which are the only values that can be appealed) are lower than market indications of value; a tax appeal before the County Board of Equalization is not necessary.

HIGHEST AND BEST USE ANALYSIS

PROCESS

Before a property can be valued, an opinion of highest and best use must be developed for the subject site, both as if vacant, and as improved or proposed. By definition, the highest and best use must be:

- Physically possible.
- Legally permissible under the zoning regulations and other restrictions that apply to the site.
- Financially feasible.
- Maximally productive, i.e., capable of producing the highest value from among the permissible, possible, and financially feasible uses.

HIGHEST AND BEST USE AS IF VACANT

Physically Possible

The physical characteristics of the site do not appear to impose any unusual restrictions on development. Overall, the physical characteristics of the site and the availability of utilities result in functional utility suitable for a variety of uses.

Legally Permissible

The site is zoned R-4/PD, High-Density Residential with PUD Overlay. Permitted uses include mix of high density residential, office, and retail uses. To our knowledge, there are no legal restrictions such as easements or deed restrictions that would effectively limit the use of the property. Given prevailing land use patterns in the area, only mixed use property is given further consideration in determining highest and best use of the site, as though vacant.

Financially Feasible

Based on our analysis of the market, there is limited demand for additional office development at the current time. It appears that a newly developed mixed use property on the site would not have a value commensurate with its cost; therefore, mixed use property is not considered to be financially feasible. Nevertheless, we expect an eventual recovery of the market accompanied by a rise in property values to a level that will justify the cost of new construction. Thus, it is anticipated that office development will become financially feasible in the future.

Maximally Productive

There does not appear to be any reasonably probable use of the site that would generate a higher residual land value than holding the property for future development of a mixed use property. Accordingly, it is our opinion that holding the property for future mixed use property, based on the normal market density level permitted by zoning, is the maximally productive use of the property.

Conclusion

Holding the property for future development of a mixed use property is the only use that meets the four tests of highest and best use. Therefore, it is concluded to be the highest and best use of the property as if vacant.

AS IMPROVED

The subject site is developed with a four story, Class A office building with ground floor retail space, which is consistent with the highest and best use of the site as if it were vacant.

The existing improvements are currently partially leased and produce a positive cash flow that we expect will continue, once stabilized. Therefore, a continuation of this use is concluded to be financially feasible.

Based on our analysis, there does not appear to be any alternative use that could reasonably be expected to provide a higher present value than the current use, and the value of the existing improved property exceeds the value of the site, as if vacant. For these reasons, continued office/retail use is concluded to be maximally productive, and the highest and best use of the property as improved.

MOST PROBABLE BUYER

Taking into account the size and characteristics of the property and its multitenant occupancy, the likely buyer is a regional or national investor.

VALUATION ANALYSIS

VALUATION METHODOLOGY

Appraisers usually consider three approaches to estimating the market value of real property. These are the cost approach, sales comparison approach and the income capitalization approach.

The **cost approach** assumes that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility. This approach is particularly applicable when the improvements being appraised are relatively new and represent the highest and best use of the land, or when the property has unique or specialized improvements for which there is little or no sales data from comparable properties.

The **sales comparison approach** assumes that an informed purchaser would pay no more for a property than the cost of acquiring another existing property with the same utility. This approach is especially appropriate when an active market provides sufficient reliable data. The sales comparison approach is less reliable in an inactive market, or when estimating the value of properties for which no directly comparable sales data is available. The sales comparison approach is often relied upon for owner-user properties.

The **income capitalization approach** reflects the market's perception of a relationship between a property's potential income and its market value. This approach converts the anticipated net income from ownership of a property into a value indication through capitalization. The primary methods are direct capitalization and discounted cash flow analysis, with one or both methods applied, as appropriate. This approach is widely used in appraising income-producing properties.

Reconciliation of the various indications into a conclusion of value is based on an evaluation of the quantity and quality of available data in each approach and the applicability of each approach to the property type.

Use of the approaches in this assignment is summarized as follows:

APPROACHES TO VALUE

Approach	Applicability to Subject	Use in Assignment
Cost Approach	Not applicable	Not Utilized
Sales Comparison Approach	Applicable	Utilized
Income Capitalization Approach	Applicable	Utilized

SALES COMPARISON APPROACH

The sales comparison approach develops an indication of value by comparing the subject to sales of similar properties. The steps taken to apply the sales comparison approach are:

- Identify relevant property sales;
- Research, assemble, and verify pertinent data for the most relevant sales;
- Analyze the sales for material differences in comparison to the subject;
- Reconcile the analysis of the sales into a value indication for the subject.

To apply the sales comparison approach, we searched for sale transactions within the following parameters:

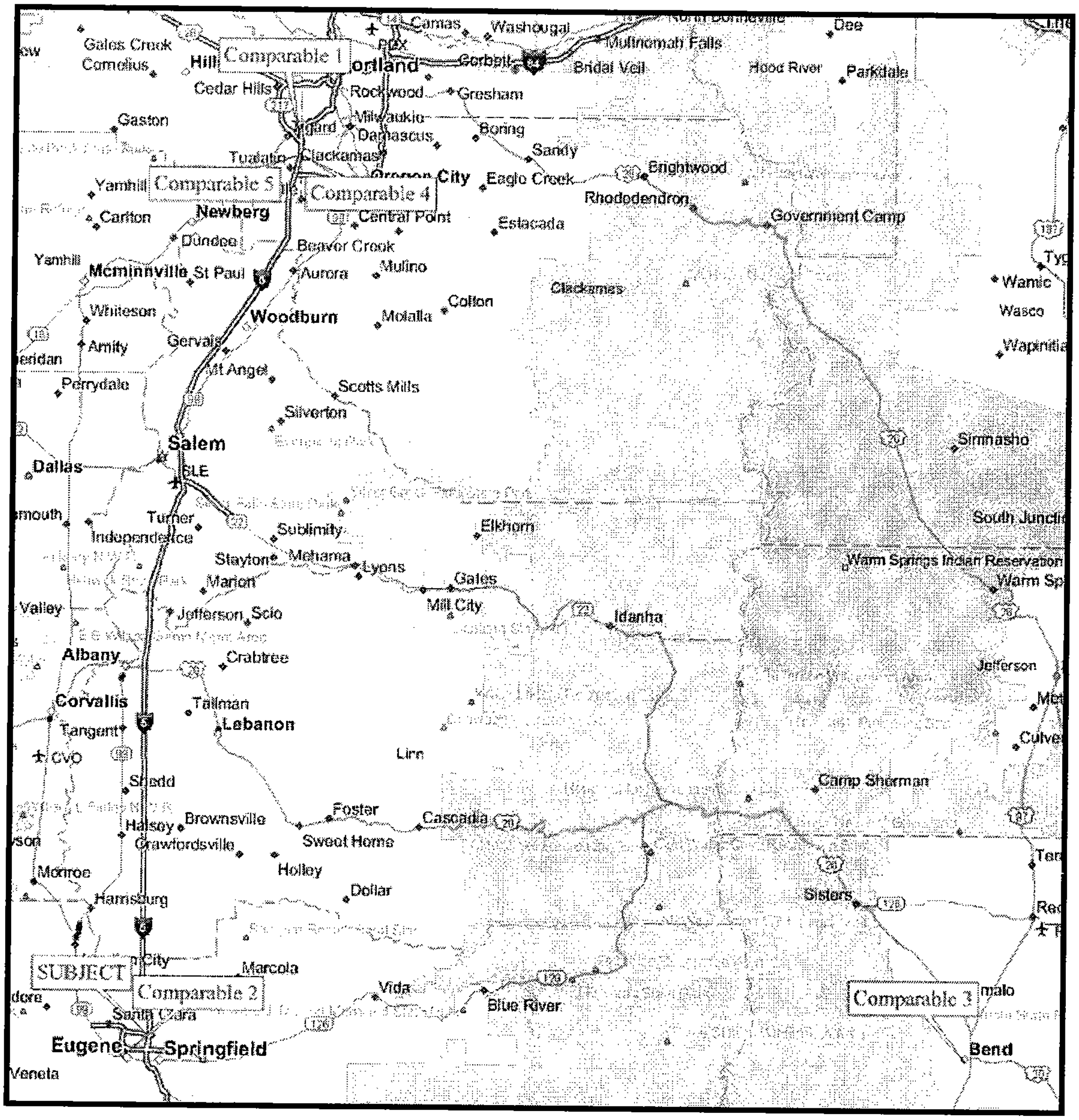
- Property Type: Office properties, preferably with retail
- Location: Oregon and Washington
- Size: 20,000 to 75,000 SF
- Age/Quality: Class A
- Transaction Date: January 2008 to present

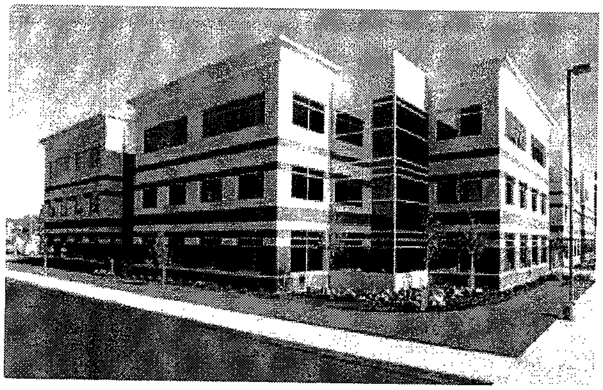
For this analysis, we use price per square foot of rentable area as the appropriate unit of comparison because market participants typically compare sale prices and property values on this basis. The sales considered most relevant are summarized in the following table.

SUMMARY OF COMPARABLE IMPROVED SALES

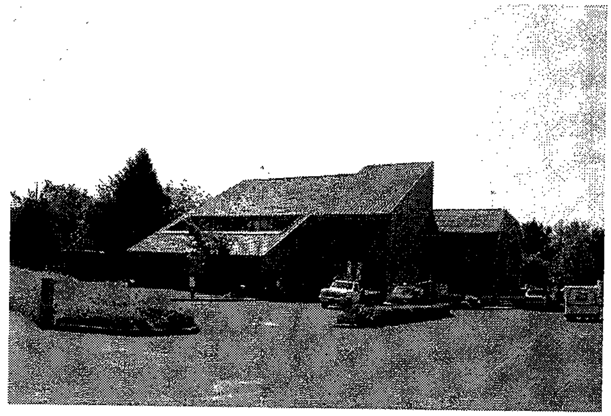
No.	Name/Address	Sale Date	Yr. Built; # Stories; % Occ.	Acres; FAR; Parking Ratio	Prop Class; Const Type; Prop Rights	Effective Sale Price	Rentable SF	$/Rentable SF	Cap Rate
1	Dartmouth Square 11945 SW. 70th Ave. Tigard Washington County OR	Jun-09	2008 3 100%	1.91 0.48 3.61/1,000	A Steel-frame, Fee Simple	$8,200,000	35,410	$231.57	–
	Comments:	Building was sold in shell condition requiring lights, ceiling tiles, and HVAC at a cost to the buyers of $35-$40/SF. The building had restrooms completed plus a finisihed lobby. Building was for lease and for sale; the buyers purchased in order to occupy the entire building. The buyer's broker stated that the building was in semi-warm shell condition with no distribution of HVAC; and although the restrooms were in, there were no halls or other demising walls. The buyers (an emergency services firm) intend to make the facility a "critical facility" including structural upgrades rumored to be $20/SF.							
2	560 Country Club Office 560 Country Club Pky. Eugene Lane County OR	Jan-09	1999 2 97%	1.02 0.36 3.49/1,000	B Wood frame, Leased Fee	$3,500,000	16,000	$218.75	7.00%
	Comments:	This was an excercised purchase option on a lease to KSASE LLC in 2007. The price was negotiated at the time of the original lease, which makes it a slightly high indicator of market value. The broker indicated that the low cap rate was due to the date of negotiation and that if I cap rate had been established closer to the closing of the sale, it would be 75 to 100 basis points higher.							
3	St. Clair Place 920 NW. Bond St. Bend Deschutes County OR	Oct-08	2002 3 95%	0.32 1.71 1.42/1,000	A Steel frame Leased Fee	$6,050,000	21,980	$275.25	7.48%
	Comments:	Occupancy at time of sale was 95%. This was a market transaction of a positive cash flow property; the seller was not under duress. Operating expenses were 2% of EGI and included reserves only. All leases are triple net basis. The property was marketed less than three months.							
4	New Oregon State Bar 16037 SW. Boones Ferry Rd. Tigard Washington County OR	Sep-08	2007 3 100%	2.85 0.58 2.96/1,000	A- Reinforced Leased Fee	$17,473,192	68,525	$254.99	–
	Comments:	This was a build-to-suit for the Oregon State Bar who signed a lease for 54% of the building, with an option to purchase at $255/SF of rentable area. The price was negotiated in 2006, and a significant amount of tenant improvements in 82% of the building							
5	Durham Office Center 16520 SW. Upper Boones Ferry Durham Washington County OR	Jul-08	2001 2 95%	2.21 0.35 3.84/1,000	A Concrete Tilt- Leased Fee	$8,500,000	33,847	$251.13	7.83%
	Comments:	The price in July 2008 was also $8,500,000. There are two tenants in the building, one in 22,110 square feet, and one in 11,737 square feet, for a total rentable area of 33,847 square feet. The building is 100% leased at time of sale. The larger tenant's lease runs through 10/31/2016. The other tenant's lease runs through 4/30/2009.							

COMPARABLE IMPROVED SALES MAP



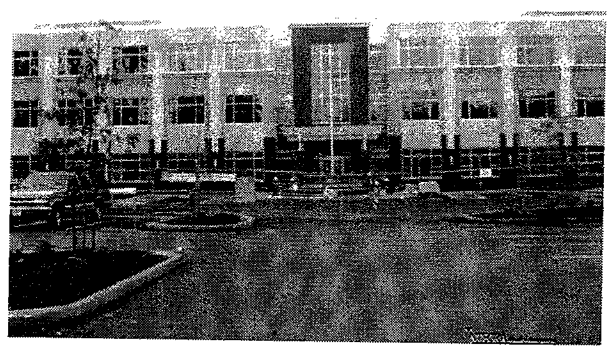


Sale 1
Dartmouth Square

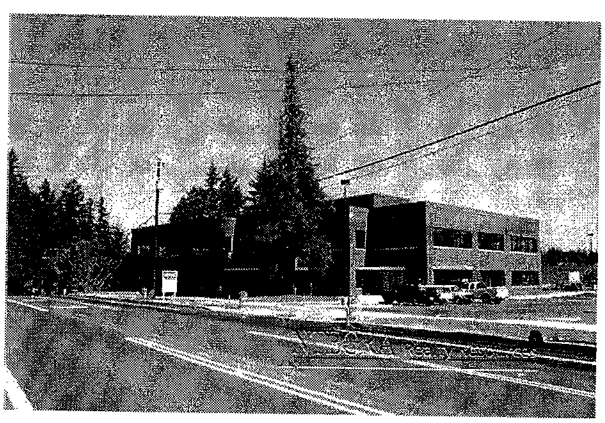


Sale 2
560 Country Club Office

Sale 3
St. Clair Place



Sale 4
New Oregon State Bar



Sale 5
Durham Office Center

ADJUSTMENT FACTORS

The sales are compared to the subject and adjusted to account for material differences that affect value. Adjustments are considered for the following factors, in the sequence shown below.

ADJUSTMENT FACTORS	
Effective Sale Price	Accounts for atypical economics of a transaction, such as excess land, non-realty components, expenditures by the buyer at time of purchase, or other similar factors. Usually applied directly to sale price on a lump sum basis.
Real Property Rights	Leased fee, fee simple, leasehold, partial interest, etc.
Financing Terms	Seller financing, or assumption of existing financing, at non-market terms.
Conditions of Sale	Extraordinary motivation of buyer or seller, such as 1031 exchange transaction, assemblage, or forced sale.
Market Conditions	Changes in the economic environment over time that affect the appreciation and depreciation of real estate. Market conditions have deteriorated since late 2007. This will be taken into account in the analysis of each comparable.
Location	Market or submarket area influences on sale price; surrounding land use influences.
Access/Exposure	Convenience to transportation facilities; ease of site access; visibility from main thoroughfares; traffic counts.
Size	Inverse relationship that often exists between building size and unit value.
Parking	Ratio of parking spaces to building area.
Building to Land Ratio	Ratio of building area to land area; also known as floor area ratio (FAR).
Building Quality	Construction quality, amenities, market appeal, functional utility.
Age/Condition	Effective age; physical condition.
Economic Characteristics	Non-stabilized occupancy, above/below market rents, and other economic factors. Excludes differences in rent levels that are already considered in previous adjustments, such as for location or quality

ANALYSIS AND ADJUSTMENT OF SALES

The analysis and adjustment of the comparable sales is discussed in the following paragraphs.

Sale 1 is Dartmouth Square, located at 11945 SW. 70th Ave., Tigard, Washington County, OR, a 35,410 square foot office property. The property sold in June 2009 for $8,200,000, or $231.57 per square foot. This is a new Class A office that was sold for owner-occupancy. The buyer indicated that the property was sold in a warm shell condition and approximately $35 per square foot would need to be spent to finish the building. This suggests an adjusted price of $266.57 per square foot. The property is located in the Portland Metro area, a superior market area. These factors are generally considered to offset. This is the most recent sale and is considered a reasonable comparable; however, capitalization rates have increased since mid-2009, which would make this a slightly high indicator.

Sale 2 is 560 Country Club Office, located at 560 Country Club Parkway, Eugene, Lane County, OR, a 16,000 square foot office property. The property sold in January 2009 for $3,500,000, or $218.75 per square foot. This is a Class B building, but as a recent sale in Eugene, it is presented to indicate values for office properties in the immediate area. The price was negotiated at the time of the original lease, when market conditions were stronger. This may make the price slightly above market. However, this is offset by the overall quality of the building. Based on its similar location, this is a strong indicator for the subject.

Sale 3 is St. Clair Place, located at 920 NW. Bond St., Bend, Deschutes County, OR, a 21,980 square foot office property. The property sold in October 2008 for $6,050,000, or $275.25 per square foot. This building has street front retail as well as office space, making it somewhat physically similar to the subject. However, it has a more downtown location with a higher site coverage ratio. Also, while Bend is a small community in eastern Oregon, demand for both residential and commercial real estate in this area was very high for the past several years. The market began to fall steeply soon after the closing of this sale. Therefore, this is considered an upper limit indicator.

Sale 4 is New Oregon State Bar, located at 16037 SW. Boones Ferry Rd., Tigard, Washington County, OR, a 68,525 square foot office property. The property sold in September 2008 for $17,473,192, or $254.99 per square foot. This was predominantly a built-to-suit project and the price was negotiated in 2006. Property values have declined in 2008 and 2009 and are now reportedly near 2005 levels. Therefore, this sale indicates a slightly high sale price due to market conditions increasing in 2006. The property also has a superior location in the Portland area. Overall, this is considered a slightly high indicator.

Sale 5 is Durham Office Center, located at 16520 SW. Upper Boones Ferry Road, Durham, Washington County, OR, a 33,847 square foot office property. The property sold in July 2008 for $8,500,000, or $251.13 per square foot. This property also has a superior location in the Portland Metro area. Additionally, this is the oldest sale, closing before the commercial real estate market began to decline, and little weight is placed on this comparable. It is considered a high indicator.

VALUE INDICATION - SALES COMPARISON APPROACH

The sales reflect a range of $218.75 to $275.25 per square foot. It is noted that there are no sales presented after mid-2009. A thorough search was made for more recent sales in the region; however, no appropriately comparable properties were found. The appraiser is aware of one recent sale in Eugene of a larger multi-tenant office building that closed in August 2009 for $121 per square foot. The sale price for this property appears to be below market. While attempts were made to confirm this sale, only the buyer was able to be contacted and he was able to offer very limited information. The property was built in 1987 and is a Class A-/B+ building. It was only 85% occupied at the time of sale, which may partially account for the below market price. While this comparable is considered, it is not presented formally as sufficient information was not made available in which to properly analyze the sale. It is considered inferior to the subject property and no weight is given beyond noting the transaction. To arrive at an indication of value, we place primary emphasis on Comparables 1 and 2 as they are the most recent sales. They indicate a value range from $231 to $218 per square foot. Based on the current market conditions, a value at the low end of this range, or $220 per square foot is utilized. It is noted that the subject has retail space on the first floor of the building. While this does increase the marketability of the subject, office space is the majority of the rentable area and a price conclusion closer to the office sales is considered reasonable.

Based on the preceding analysis, we arrive at a value indication by the sales comparison approach as follows. The lease up cost will be discussed following the Income Approach.

VALUE INDICATION BY SALES COMPARISON	
Stabilized	
Indicated Value per SF	$220.00
Subject Square Feet	32,437
Indicated Value	$7,136,140
Rounded	$7,140,000
As Is	
Stabilized Value Indication	$7,136,140
Adjustments	
Lease-Up Costs	-$1,440,000
Total Adjustments	-$1,440,000
Indicated Value	$5,696,140
Rounded	$5,700,000

INCOME CAPITALIZATION APPROACH

The income capitalization approach converts anticipated economic benefits of owning real property into a value estimate through capitalization. The steps taken to apply the income capitalization approach are:

- Analyze the revenue potential of the property.
- Consider appropriate allowances for vacancy, collection loss, and operating expenses.
- Calculate net operating income by deducting vacancy, collection loss, and operating expenses from potential income.
- Apply the most appropriate capitalization methods to convert anticipated net income to an indication of value.

The two most common capitalization methods are direct capitalization and discounted cash flow analysis. In direct capitalization, a single year's expected income is divided by an appropriate capitalization rate to arrive at a value indication. In discounted cash flow analysis, anticipated future net income streams and a future resale value are discounted to a present value at an appropriate yield rate.

In this analysis, we use only direct capitalization, as investors in this market typical utilize this approach. Also, based on the limited amount of market activity in Eugene, there is not sufficient information with which to develop appropriate market assumptions.

LEASED STATUS OF THE PROPERTY

A rent roll for the property is shown below, based on our review of the leases and the owner's rent roll.

RENT ROLL

Suite	Tenant	SF	Lease Start	Lease End	Term (Mos.)	Lease Type	Contract Rent/SF	PGR Projected	PGR/ SF
201	Inkwell Medical Group	2,123	11/01/09	10/31/16	84	Triple Net	$19.80	$42,035	$19.80
202	Vacant	2,923				Triple Net		$58,460	$20.00
203	Vacant	2,924				Triple Net		$58,480	$20.00
301	NW Farm Credit Services	4,344	02/01/09	07/31/13	54	Triple Net	$18.46	$80,190	$18.46
302	Vacant	1,813				Triple Net		$36,260	$20.00
303	Vacant	1,813				Triple Net		$36,260	$20.00
401	Vacant (Arlie & Company)	9,382	02/01/09	01/31/19	120	Triple Net	$24.00	$187,640	$20.00
2805 Bldg D	Vacant	3,077				Triple Net		$86,156	$28.00
2907 Bldg D	Vacant	3,077				Triple Net		$86,156	$28.00
2917 Bldg D	Vacant	961				Triple Net		$0	$0.00
	Total/Average*	32,437					$53.72	$671,638	$20.71
	Vacant SF	25,970	80%						
	Leased SF	6,467	20%						

* Average contract rent is based on leased square feet.

As of the effective valuation date, the subject is 20% leased. There are a total of 3 tenants, and contract rents range from $18.46 to $24.00 per square foot, including the Arlie & Company lease that is currently in default. Tenant spaces range from 961 - 9,382 square feet. There is a letter of intent for 616 SF of space on the first floor of the subject building for $24 per square foot, triple net. It includes a tenant improvement

allowance of $35 per square foot. While this is a positive sign for the lease up of the subject property, it is not considered to be a signed lease and little weight is placed on it.

The following table identifies the distinct space types within the property as well as the total area and leasing status of each.

LEASED STATUS BY SPACE TYPE				
Space Type	SF	Leased	Vacant	% Leased
Office	25,322	6,467	18,855	26%
Retail	6,154	0	6,154	0%
Secondary Retail	961	0	961	0%
Total	32,437	6,467	25,970	20%

The property is not at stabilized occupancy, which is considered in our analysis. Lease up costs will be discussed at the end of this section.

Expense Structure

The division of expense responsibilities between the owner and typical tenants is detailed below.

SUBJECT EXPENSE STRUCTURES				
Space Type	Office		Retail	
Lease Type	Triple Net		Triple Net	
	Owner	Tenant	Owner	Tenant
Real Estate Taxes		X		X
Insurance		X		X
Common Area Maintenance		X		X
Management		X		X

There is a mix of triple net and full service expense structures in the subject's market. However, medical office and retail are almost exclusively triple net. Therefore, a triple net expense structure is considered reasonable. Any modified gross comparables will be adjusted to triple net.

Major Tenants and Credit Evaluation

The following table summarizes the largest tenants in the subject. It is noted that the Arlie & Company lease is in default. However, it is still in place and is presented here, noting that the lease up analysis will consider it vacant space.

MAJOR TENANTS					
Suite	Tenant	Expiration Date	SF	% of Total	Cumulative % of Total
1 401	Arlie & Company	01/31/19	9,382	29%	29%
2 301	NW Farm Credit Services	07/31/13	4,344	13%	42%
3 201	Inkwell Medical Group	10/31/16	2,123	7%	49%
Total Rentable Area - Major Tenants			15,849	49%	49%
Total Subject			32,437		

Overall, the credit quality of the tenancy appears to be typical of the subject's property class and market area.

Lease Expiration Analysis

A lease expiration schedule for the existing tenants is shown below.

LEASE EXPIRATIONS BY YEAR					
Analysis Year	Fiscal Year Ending	SF Expiring	% Expiring	Cumulative SF Expiring	Cumulative % Expiring
1	01/31/13	0	0%	0	0%
	Vacant Space	16,588	51%	32,437	100%
	Total	32,437			

There does not appear to be any above average risk associated with the lease expiration pattern.

Leased Status Conclusion

The subject is below stabilized occupancy. The existing leases represent an average quality tenant base, with the exception of Arlie & Company, who has defaulted on their lease. The lease structure in place results in a typical expiration exposure pattern, noting that the vacant space will likely absorb evenly over the next two years with typical lease terms. Contract rents are generally reflective of market rates. These factors result in average investment risk for the subject, as if stabilized.

MARKET RENT ANALYSIS

Contract rents typically establish income for leased space, while market rent is the basis for estimating income for current vacant space and future speculative re-leasing of space due to expired leases. It is also important to compare current contract rent levels with market rent levels. To estimate market rent, we analyze comparable rentals most relevant to the subject in terms of location, building class, size, and transaction date.

Office Space Rental Analysis

Comparable rentals considered most relevant to the subject's office space are summarized in the following table.

SUMMARY OF COMPARABLE RENTALS - OFFICE

No.	Property Information	Description		Tenant	SF	Lease Start	Term (Mos.)	Rent/SF	Escalations	Lease Type
1	Coburg Connection 3700 Coburg Rd. Eugene Lane County OR	Yr Blt. Stories: RA: Parking	2010 3 44,000 4/1,000	Listing	5,000	02/10	–	$21.00	–	Triple Net
	Comments: This is the asking rent for a proposed building at the intersection of Coburg Rd and Game Farm Rd. The proposed development is a mixed use project with five buildings. though this only reflects the asking rate for office space. Spaces are also being offered as condos. but marketing these has been difficult due to the current market conditons. The owners are now focusing on leasing space to meet pre-leasing requirments needed to aquire financing.									
2	Country Club Office Park 400 - 450 Country Club Eugene Lane County OR	Yr Blt. Stories: RA: Parking	1988 3 106,368 3.8 /1,000	Mark Brower	2,060	06/09	60	$22.00	3% annual	Modified
	Comments: This is a five year lease. TI's were approximately $15/sf. This is the renewal of the original lease from 2004.									
3	The Ten on Coburg 10 Coburg Rd. Eugene Lane County OR	Yr Blt. Stories: RA: Parking	2007 3 34,971 1.9/1,000	Clinical Trials of America	4,647	10/08	60	$25.00	Variable	Triple Net
	Comments: This is a second floor lease in an office building with a mix of condos and leased spaces. TI's at $40/SF included in the lease. While this building currently has mainly medical tenants. it is being marketed for both medical and professional office.									
4	Oakway Financial Center 479 Oakway Rd. Eugene Lane County OR	Yr Blt. Stories: RA: Parking	1990's 4 45,000 2.3 /1,000	Prudential Preferred	2,466	08/08	36	$21.00	None	Modified
	Comments: This tenant currently occupies the entire fourth floor of this building and this was a new lease signed for an expansion. TI's at $10 for this second generation space.									

COMPARABLE RENTALS MAP – OFFICE